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## Note from the editor

Dear reader,

When accepting an offer to serve as the Editor of *Economic Sociology* for the next year, it was suggested to me that I devote one of the issues to the state of the art in Russian economic sociology. Given the field is very broad, I decided to focus on one area of studies which is crucially important for the Russian economic sociology and presented by a great variety of studies carried out with divergent research tools. This is an area of *informal economy* which is confined neither to the second economy nor to illegal markets but presented as a set of divergent segment with a complex interplay of formal and informal institutions.

Before turning to the content of this issue, let me give you a very brief idea of the phases of Russian sociology re-emergence. Russian sociology was born at the end of 19th century and borrowed a lot from positivism of Auguste Comte at that time. Russian Sociological Society was established first in 1917. The first teaching department of sociology was opened by Pitirim Sorokin in 1920. Then the new Bolshevik political regime sent a number of leading sociologists out of the country on the famous "Philosophers' steamboat" in the 1920s and repressed some of them in the 1930s. Sociology was identified with the orthodox Marxist social science. Its development was largely interrupted.

Sociology was formally re-established by the late 1950s under close supervision of the Communist party. The Soviet Sociological Association was launched in 1958. The first special Institute of Concrete Sociological Studies was established in 1968. But after invasion of Soviet troops into Czechoslovakia in 1968, ideological pressures increased. The best sociological research teams were dismantled. "Sociological renaissance" was stopped.

The second phase of formal recognition came under Gorbachev's perestroika when sociology and political science were officially acknowledged. The first departments of sociology were established at universities in 1989. Defence of doctoral dissertations in sociology was allowed. The first public opinion polls started to grow on the democratic wave giving way to a new type of empirical studies. New sociological research centres and chairs at universities were mushrooming during the 1990s.

A specific feature of Soviet/Russian sociology lies in principal heterogeneity of sociologists' academic background. Scholars came to sociology from different disciplines (economics, psychology, history, and philosophy). This causes a great deal of methodological diversity reproduced over decades. It makes the field more multifaceted but at the same time puts some boundaries to professional communication within sociological community.

Methodologically, the best examples of Soviet sociology (and economic sociology in particular) presented a peculiar combination of orthodox Marxism and latent structural functionalism. Industrial sociology and studies of social structure were primary fields in which sociology initially tried to develop. "Social class" was used as a major category for critical evaluation of western societies while "work" was made a major category for describing socialist societies.

With elimination of ideological monopoly of the orthodox Marxism and legitimization of Western sociological theories, a methodological pluralism was established. Sociologists started to investigate a great variety of new topics, including private entrepreneurship, labour conflicts, unemployment, and poverty.

Having been born in Novosibirsk in the 1980s due to the efforts of the research team headed by Tatiana Zaslavskaya and Rozalina Ryvkina, the focal centre of Russian economic sociology moved to Moscow in the 1990s (with many participants of the Novosibirsk school who left Siberia for the capital city).

From the very start, much of attention was attracted to studying informal and shadow economy. It was not accidental at all given that in the 1990s most of the enterprises even having quite legal statuses were making at least some of their transactions in the shadow economy to conceal revenues from the state. Both business and households were (and still are) extensively involved into corrupt deals with the public officials for getting extra benefits or avoid sanctions for non-compliance with the contradictory formal rules. At the same time, informal economy of households was flourishing.

There was also a methodological reason derived from an increasing popularity of the research tools offered by the new institutionalism during the years of fundamental institutional change. Though importation of the new institutionalist research program was not completed giving way to “soft” and somehow eclectic versions of the new institutionalism in economic theory and economic sociology, as it was brilliantly reflected by János Kovács for post-communist societies in the previous issue of the *Newsletter*. However, more formalized theories and modelling techniques are also being applied for investigation of murky boundaries between formality and informality of rules.

Now let us turn to the current issue. It starts with a brief overview of sociological studies in the field of informal and shadow economy in Russia. Together with Svetlana Barsukova, we discuss the rise of the shadow economy in the Post-Soviet era, involving transition from fictitious and virtual economy to shadow dealings, from relationships of “blat” to business networking, and from pilfering to tax evasion. We address the institutionalised practices of corruption and use of violence in business, the maintenance of inter-family reciprocal exchanges and the progressive legalization of business activities.

In the next paper, Aryna Dzmitrieva attracts attention to the sociological turn in legal studies in Russia. Sociologists challenge the autonomy of law and examine the conditions when laws and law enforcement organizations do exist, while the rule of law is not obtained, and when informal practices prevail over formal laws. In their empirical studies of judicial decisions and judges’ community, scholars study the structure of legal institutions, their functioning, the conflicts of different social groups with the law, and the social determinants of judicial behaviour.

Leonid Kosals and Anastasia Dubova analyse blurred boundaries between the legal and illegal markets taking an example of the shadow economic activities of police officers in Russia. Being a tool for maintaining law and order, in many transformation countries the police has turned into a powerful vehicle of institutional subversion. The authors summarize publications investigating police corruption and

moonlighting in Russia as a socially embedded phenomenon. They reveal the fundamental reasons for commercialization of the police activity.

Tatiana Karabchuk addresses the question why the informal employment is so sustainable in Russia. It became a safety net for the households during the shock therapy of the 1990s and a survival strategy for enterprises in the drastically changing economic conditions. However, it continued to expand during the years of economic growth in the 2000s. The paper deals with the main approaches and definitions of informal employment, data sources and measurement, the scale and scope of the informal employment, and the reasons for its sustainable growth in Russia.

A specific form of informal employment is presented by electronic freelancers, e.g. self-employed professionals working remotely via the Internet. Andrey Shevchuk and Denis Strebkov launched Russian Freelance Survey (RFS) that brought more than 10,000 usable responses in each of two waves in 2008 and 2010, making RFS one of the largest freelance surveys in the world. Using these unique data sets, the authors describe the main groups involved in the Russian-speaking e-lance market and demonstrate how they cope with the high level of informality of institutional arrangements and opportunistic behaviour of market actors.

Finally, Alexander Nikulin introduces the new research programmes for studying rural informal economy in post-Soviet Russia, including unregistered family employment, secondary employment, and widening of interfamily exchanges. He also demonstrates how western scholars contributed to this important area of studies using the local rural statistics, participant observations, peasants’ narratives, and detailed analysis of their family budgets.

I am thankful to all contributors and hope that this issue will give you an idea of at least one important area of studies carried out in the Russian economic sociology.

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# Informal Economy in Russia: A Brief Overview

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## Introductory remarks

Economic sociologists in Russia have always paid much attention to studying informal and shadow economy. They apply structural and institutional insights as two complementary approaches to the definition of the informal economy. When following the structural approach suggested in the early 1970s by Keith Hart, informal economy is defined as a set of economic activities which are not displayed in official reporting and/or formal contracting. This kind of informal economy consists of two major sectors. The first sector is presented by the unobservable economy of the households largely confined to subsistence production and redistribution, including informal work at the private land plots, informal credit relationships, and inter-family mutual aid. People employed in the informal household economy do not consciously conceal their activity from the state; the state just overlooks them.

The second sector is made up of the shadow economy, which involves enterprises consciously hiding their revenues in order to lessen their tax base. The shadow economy entails the non-registration of enterprise or some parts of the enterprise activity, employing a workforce without formal contracts and double book-keeping. Unlike the informal activities of households, the shadow activity of enterprises ought to be reported to the statistical and tax authorities, but in spite of this, such activity is often concealed from them (Barsukova 2000; Radaev 2002a). There is a relatively small but important part of the shadow economy associated with the illegal markets. They deal with the goods and services prohibited by the law (drug trafficking, prostitution, etc). Studying these markets is highly relevant for economic sociology (Beckert, Wehinger, 2011).

Within the framework of the institutionalist approach, the informal economy was put into a broad framework delineating all informal relationships that accompany formal institutions, in order to make them run smoothly and to compensate for their failures. An informal economy of this kind is an integral component of activities for all market actors.

In this overview, we discuss the major outcomes of the studies of the Russian informal economy, including the rise of the shadow economy in the Post-Soviet era, corruption and violence in business, the maintenance of inter-family reciprocal exchanges and the progressive legalization of business activities.

## Transformation of the informal economy in the Post-soviet era

The post-Soviet era saw the marked growth of the shadow economy in Russia. But the most important trend was not so much an increase in size as the institutionalization of informal relationships and their transformation of market substitution into an integral component of new market activities.

### From a fictitious and virtual economy to a shadow economy

The shadow economy did not play a particularly significant role in the soviet era, but the fictitious economy was flourishing. It meant that economic actors did not hide their output from the state, but tended to overvalue it. Under the soviet command system, it was critically important to fulfil the administrative plans in order to achieve additional inputs and higher monetary rewards. Hence, it put a lot of pressure on the enterprises and stimulated the intentional overvaluation of performance and reporting on the output that was not actually done, a process named “*pripiski*”. Enterprise managers applied a great variety of sophisticated calculative tools in order to pretend as though they had performed better than they actually had. Such evaluations were rather prevalent.

In the Post-soviet period, there was no need for “*pripiski*” anymore. In the 1990s, the fictitious economy gave way to

a new form of the virtual economy based on barter exchanges and payment arrears, which originated from the severe shortage of liquidity. Barter exchange increased from 2 – 6 % of industrial output in soviet times to its maximum of 50 – 70% of industrial output by the end of 1990s (Woodruff, 1999). It was important that goods which were bartered were normally overvalued, for the price of delivered goods was not constrained by the purchasing power of the clients (Gaddy, Ickes, 1999). This kind of virtual economy produced distorted signals for economic agents, while an overvalued price including inflated wages and tax payments pushed the economy into a further circuit of payment arrears.

In the late 1990s, when the economy was flooded with 'live' money and the virtual economy was fading away, observers realized that a large part of economic transactions were carried out in the shadow economy, which was characterized, conversely, by the undervaluation of performance and concealment of output aimed at tax evading. Nevertheless, fictitious and shadow economies were still closely interrelated. Fictitious firms and fictitious transactions are widely used as an important technical element of the 'grey' and 'black' business schemes concealing revenues from the tax authorities.

### From "blat" to networking

In the Soviet Union, one could obtain goods in short supply in two ways, other than through official stores. First, these goods could be bought on the "black market" at a higher price, though this quasi-market was rather limited in scope and technically illegal. Second and much more importantly, scarce goods could be acquired through informal channels by using strong and weak network ties. This type of informal exchange was called "*blat*" (Ledeneva, 1998).

The price for these goods was much lower than at the black market and was close to the state regulated level, but access to these goods was controlled by social networks. It was not so important to have financial resources, but gaining access to scarce goods and services and being well-connected were vital. "*Blat*" was neither a criminal activity nor an alternative to the planned economy, but rather a legitimate compensatory mechanism for economic failures of the planned economy. It enabled people to resolve their everyday problems such as obtaining desired commodities and services. "*Blat*" was based upon communal reciprocal ties, in contrast to the impersonal and strictly accountable formal economy (Jowitt, 1983: 275).

In the Post-soviet era, as the scarcity of goods and services disappeared, "*blat*" lost much of its value. But reciprocal ties were not entirely replaced by impersonal arm's-length ties with the rise of pecuniary relationships. Networking is still important for gaining access to cheap credit resources, reliable business information or arranging good jobs (Gudkov, Dubin, 2002). Post-soviet networking is not used for acquiring goods in short supply anymore, but rather as a business tool (Ledeneva, 1998). Instead of playing a role of market substitutes, connections serve as an element of the market economy embedded in social networks.

### From pilfering to tax evasion

There was a peculiar non-organized part of the Soviet shadow economy based upon pilfering, i. e. the abuse of the working positions in order to steal from the job and the misuse of state-owned enterprise resources. Stealing from the state was a wide-spread and semi-legitimate way of accruing additional private benefits. The soviet secondary economy was even named "cleptocracy" (Grossman, 1982: 253, 1989).

Drivers sold out the gasoline. The plumbers took away tools and instruments. Cooks stole fresh meat and deficit food items. The higher-rank employees could lie in order to receive a larger share of any misappropriated resources. If the boss had no direct physical contact with the resources and clients, he/she was entitled to certain systematic "donations" from the subordinates who hoarded these resources. It was stealing "according to rank". It was essentially a tacit privilege, and one of the perks of the job. What is remarkable is that managers considered these practices to be legitimate, especially in rural areas where stealing from the large collective farms was one of the basic sources of survival for households (Kosals, 1998: 71).

Pilfering is still present in the Post-soviet economy today. But a major source of obtaining extra shadow revenues has become different. Managers and workers started to 'steal' resources from the state in the form of tax evasion. The spread of such tax evading behaviour can be illustrated by the following examples. Firstly, there was a short period of time when Russian citizens were supposed to submit tax declarations. According to official data, more than two thirds of Russian citizens who were subject to tax declarations did not comply with these rules in 1996. Secondly, tax evading was even more widespread amongst entrepreneurial activity. According to the 1998 survey, consisting of data collected from 227 Russian entrepreneurs and man-

agers, 84 % of respondents pointed to tax evasion as a major form of non-compliance with legal norms in Russia (Radaev, 1998: 275-276).

### From speculation to entrepreneurship

In the soviet economy, entrepreneurships were illegal and were subject to the Criminal Code. They were also illegitimate from the standpoint of informal conventions, which were shared by the public. Shadow dealers selling goods and services in short supply were treated as "dishonest speculators" by their clients. Soviet small traders of imported goods (*fartsovshchiki*) were respected and despised by the public at the same time. They were blamed for higher prices and the very intention of private gain.

In the post-communist era, entrepreneurial behaviour was legally rehabilitated and publicly legitimized. Shadow dealers became legal or semi-legal entrepreneurs. In the 1990s, it gave way to a mass of small cross border traders, or "shuttle-traders" (*chelnoiki*) bringing imported goods independently/by themselves from Turkey, China, Saudi Arabia, and Poland. This grassroots entrepreneurship did not become very prestigious, but it was quite a legitimate activity. The people started to back shuttle traders when the state authorities tried to suppress them.

Informal employment was not considered to be mere idleness (*tuneyadstvo*) anymore. It was now treated as an element of a global trend in labour relations which made them more flexible, and therefore, informal (Portes, Sassen-Koob, 1987). In the soviet period, households' revenues from informal employment were normally a supplement to income earned in the formal economy. In the Post-soviet era, such shadow activity became a major source of living for a relatively broad social spectrum. At the same time most energetic and capable economic actors moved into official entrepreneurial activity leaving informal employment for deprived social groups, such as migrants from the CIS countries.

### Informal inter-family exchange

In soviet times, inter-family reciprocal exchange was stigmatized as a rudimentary phenomenon and largely ignored by the scholars. Economic reforms brought in dramatic changes and increased economic uncertainty for households. Some parts of public sector were disrupted or privatized, and the state cut down on the amount of distributed welfare services. Shock therapy was followed by massive

wage arrears producing additional tensions. Under these conditions the role of the household economy as a social and economic buffer was significantly raised. A large part of the value produced and exchanged here did not come through the market. It was redistributed through networks of relatives and neighbours using non-calculative practices of reciprocal exchange.

Since the 1990s, these inter-family exchanges became subject to active sociological research for Russian scholars borrowing anthropological ideas from the newly recognized Marcel Mauss and Karl Polanyi. These horizontal ties were conceptualized as the use of specific social capital based upon network structures and accumulated mutual obligations. It was specified as an activity which was not regulated by formal institutions in contrast to the patron-client relationships, which were based on resources of administrative capital and were just an informal side of the existing formal order (Barsukova, 2009).

Empirical estimates of the involvement of inter-family exchanges varied depending on measures from 40 to 70% even for the urban population (Gradoselskaya, 1999; Radaev, 2002a). More detailed ethnographic studies demonstrated the almost total involvement of households, especially in rural areas. It was explained that reciprocal exchange was perceived as an everyday routine that was not reflected in terms of economic transactions.

It is remarkable that a change in material status does not exclude households from the networks of mutual assistance, but it may change the configuration of these networks. In poor families the number of ties is normally smaller and ties with relatives are stronger, while in well-off families the number of ties significantly increases and goes far beyond dense and closed kinships ties (Shteinberg, 2009).

Among the other empirical findings, it was further demonstrated that the direction of inter-family transfers was not a function of the material status of households, but rather a reflection of more complex social relationships. For example, older generations normally became donors, with their children and grand-children as recipients. Despite the lower level of income and well-being, grandparents maintain their status by providing small amounts of material support to their relatives (Radaev, 2002a). Interestingly enough, the wife's parents were more privileged if compared to the husband's parents, irrespective of their material status (Barsukova, 2005).

With regard to the characteristics of social ties, non-calculative inter-family exchange is more intensive between relatives than between friends and neighbours, and the amount of material support circulated through these strong ties is greater. However, informal credit relationships, assuming that money should be paid back, (with no interest or with little interest involved) are more widely spread in the networks of weak ties (Barsukova, 2005).

In some important areas, inter-family informal exchanges can allow the households to use their limited resources in a more flexible and optimal way (Fadeeva, 1999). Fundamentally, it is not so much a manifestation of instrumental rationality and utility maximizing demonstrated by self-interested actors, but rather a compliance with the cultural norms of the moral economy which provides safety nets for sustaining and repairing the social fabric in turbulent times.

### Corruption as an embedded phenomenon

From a great variety of definitions of corruption, we have chosen one that places corruption into the framework of agency theory according to which corruption is presented as a relationship between three actors, i.e. a Principal establishing formal rules, an Agent appointed by the Principal to implement these rules, and a Client presenting a third party interested in the violation of these rules (Gambetta, 2002). Within this conceptual framework, corruption is defined as the abuse of office by the Agent in order to achieve private gain from the Client by deliberate violation of the formal office rules defined by the Principal in favour of the Client.

Economists normally treat corruption as a manifestation of rational behaviour of self-interested autonomous actors searching for the optimal use of limited resources (Rose-Ackerman, 1999; Shleifer, Vishny, 1993). Economic sociologists do not reject this view entirely but add an important dimension to it presenting corruption as an institutionally and culturally embedded phenomenon. Developing on this insight, Russian economic sociologists have put forward the following statements derived from their empirical studies:

1. Legal definitions of corruption do not always coincide with conventional moral judgements, which treat at least some illegal actions as legitimate, for example, bribing the road police.

2. Corruption is not confined to mere bribe-taking. It is also considered to be a manifestation of group commitment and loyalty, and a facilitator of the interpersonal exchange of mutual favours (Radaev, 2000a, 2002b).

3. The hierarchical structure of informal payments with bribe-taking according to rank and the redistribution of obtained money from lower to higher administrative layers, cements the whole system and reduces both the subjective and objective risks of being caught and sentenced.

Scholars distinguish between several types of corruption in the Post-Soviet society, namely:

- Business corruption: Bribes and informal payments in relationships between business and public officials

- "Otkaty": Kickbacks in inter-firm relations between company managers

- Everyday life Corruption: Informal payments and gifts presented by the individuals in order to receive 'proper services' in health care and education, and to avoid formal sanctions for non-compliance with the rules

- Political Corruption: Buying seats in the public offices and the secret funding of civil servants to lobby the interests of political and economic groupings (Barsukova, 2009a).

Business corruption is the most important example here. According to our 1998 survey data, the vast majority of entrepreneurs and managers (87%) reported the existence of bureaucratic extortion in Russian businesses. Two thirds of respondents (65%) had their own personal experience of extortion from public officials. What is remarkable is that only 20% of interviewed entrepreneurs and managers believed that it was possible to avoid bribes within Russian business under present conditions (Radaev, 1998). Many things have changed since the end of the 1990s but not the spread of corruption in relations between business and public officials.

The most systematic studies of corruption were carried out by the INDEM Foundation in the 2000s (Satarov, 2002, 2008). They discovered the complete dominance of business corruption, whose estimated volume exceeded by ten times the other forms of corruption altogether, although there was an important change in the models of institutional subversion and corresponding types of business

corruption (Hellman, Schankerman, 2000). In the 1990s, the model of state capture by large entrepreneurial companies dominated in the state-business relationships (Hellman, Jones, Kaufmann, 2000). In the 2000s, along with the consolidation of the state, it moved from the state capture to a new prevalent model of business capture when public officials and state protection agencies did not take regular bribes but seized profitable businesses. At the same time, the state capture was being largely replaced by more sophisticated systems of exchange between state authorities and businesses (Frye, 2002; Yakovlev, 2010).

There is a lot of discussion over managerial kickbacks used in business-to-business relationships to obtain better contracts. In actual fact, this type of corruption had declined by the end of the first decade in the 2000s. As for the everyday life corruption, it stabilized over time during the 2000s and even decreased amongst the spheres in which formal rules were properly specified and enforced (for example, issuing domestic passports and passports for international trips). Nevertheless, families used to offer bribes for admission of their children to better secondary schools or universities and in order to avoid regular military service.

Russian corruption is rhetorically blamed by everyone but it is justified by many at the same time as an instrument enabling the rigid formal institutions to work smoothly. Corruption is institutionally embedded, in a sense that formal rules are often introduced by the public authorities as principally incomplete and even controversial. It leaves room for uncertainty and alternative interpretation. Entrepreneurs cope with this uncertainty by giving bribes to public officials, who are supposed to check the public's compliance with such rules. Public procurement contracts present a good example here. It was demonstrated that in more corrupt localities of Russia, public procurement contracts were allocated to less efficient firms, and therefore, corruption had negative welfare implications (Mironov, Zhuravskaya, 2011).

Corruption is also culturally embedded, since many people consider it a cultural norm – though a resentful norm – rather than a deviation. Only 13% of Russians expressed active disapproval of corruption (Satarov, 2008). It is explained by long-standing give-and-take habits, gift exchange as the manifestation of gratitude and the personalization of relationships, since the demarcation line between gifts and bribes is rather vague (Satarov, 2002). Russians are still tolerant with regard to petty bribes, such as informal

payments to the road police for non-compliance with the rules.

The negative impact of corruption was thoroughly discussed (Paneyakh, 2008; Radaev, 2002b). The evidence pointed to additional transaction costs which resulted from excessive regulation and informal taxation imposed on businesses, the reduction of competition and the adverse selection of market actors, the waste of public resources and undermining of institutional trust. Combating corruption remains on the agenda of each Russian Federation President. In spite of this, the results have so far been modest.

### Use of violence in business

Russian businesses in the 1990s demonstrated a high incidence of opportunistic behaviour involving defaults on business commitments. Contract infringements were reported by 90% of the interviewed managers in 1998, of which one half pointed to a high incidence of infringement. As a result of a weak state, which was unable to protect property rights and corrupt arbitration courts, which failed to provide effective contract enforcement, the use of violence in Russian business became an important tool to resolve disputes. Evaluating the Russian business environment in the course of a 1998 survey, 79% of the interviewed managers reported that threatening behaviour and force were applied in business relationships. 43% of managers had personal experience of this kind (Radaev, 2000b, 2002b).

Historical studies devoted to the Sicilian and American mafia supported the idea of the functionality of organized criminal groupings, which provided protection to businesses (Latov, 2001). The most important study was published by Vadim Volkov, presenting the political economy of violence. This study was based on a series of interviews with acting criminals, entrepreneurs, and police officers. It revealed the channels of recruitment of members to the organized criminal groupings, and described the evolution of their activity in the 1990s (Volkov 1999, 2000, 2002).

The state failed to maintain its monopoly on violence at that time, and this 'institutional vacuum' was immediately filled by organized crime. New criminal (bandit) groupings recruited professional sportsmen and military men who had gained experience during the Afghan and Chechen wars. They graduated from the trivial extortion of newly

emerged businesses (racketeering) to working within protection firms that obtain secret information, enforce contracts, resolve business conflict, recover debts, and facilitate investment to the firms they favoured.

By the end of the 1990s, criminal groupings were largely pushed away by legal security agencies, which were closely associated with the state. They proved to be more competitive in the market for protection services, while organized crime was largely marginalized. Many former criminals preferred to convert themselves into "honest businessmen" (Volkov, 2002). At the same time, entrepreneurs realized that dealing with non-state violence was a costly and risky business. The consolidated state took over the monopoly on violence under Putin's administrative regime. At the same time, formal institutions became more effective in the protection of private property rights (Pappe, Galukhina, 2009). Dispute resolution in the arbitration courts became a normal practice for an increasing number of market actors.

However, consolidation of the state was accompanied by the active commercialization of state agencies imposing rule of law but at the same time selling protection services on their own (Kosals et al, 2008). These privatized administrative and coercive resources of the state were extensively used during a new wave of re-division of private property at the beginning of the new millennium. This institutional subversion was backed by the corrupt and dependent court system (Barsukova, 2008). It also stimulated new forms of predatory competition by arranging inspections of state controlling bodies for the rival firms and the use of law firms for taking and stripping of the most valuable assets.

Facing this fundamental change in law enforcement practices, the focus of studies for economic sociologists moved from organized crime to the economic activity of the police and formation of new court practices. It was implemented in a series of research projects carried out at the Higher School of Economics in Moscow and the Institute for the Rule of Law at the European University at St. Petersburg.

## The legalization of Russian businesses

By the end of the 1990s, even large legal firms in Russia were still largely involved with the shadow economy, and used so called "grey" (semi-legal) business schemes. The prevalence of such business schemes was backed by the mechanism of the informalization of rules, which worked

quite effectively to transform formal rules into complex sets of informal institutional arrangements. Russian legislation was incomplete and controversial. Besides which, the law was not perceived by the market actors as an incontestable rule that one had to unconditionally comply with, but as the subject for creative adaptation to pre-existing business practices (Radaev, 2005).

On the political side, influential interest groups needed a developed "grey" market as a source of shadow revenues. The direct involvement of political and state institutions and their leaders in the facilitation of shadow dealings was recognized as one of the major reasons for the low risk of tax evasion in Russia at that time (Yakovlev, 2000: 142-146).

Nevertheless, the start of the new millennium was marked by an explicit 'social movement' driving the market actors toward the formalization of their activities. At the same time, a common understanding emerged that legalization could not be successfully achieved merely by the adoption of "good laws" and reduction of taxation rates. It presumed a necessity of fundamental changes in the institutional arrangements. New conventions of coordination were urgently required, allowing the competing market sellers to avoid the notorious "free-rider problem", meaning the unwillingness of any rational market player alone to take the legalization costs upon her/himself. The lack of trust between business actors and public officials presented a further barrier.

These coordination problems were resolved though not entirely by a new generation of business associations, which were capable of setting up a productive dialogue with the public officials. As a result, the legalization of Russian business was actively begun. In spite of the higher legalization costs, business owners and managers did have both long-term and short-term incentives for bringing their activity out of the shadows. These incentives could not be explained by the economic calculation of transaction costs alone. Business leaders considered the increasing risks of sanctions and opportunity costs, which resulted from the potential re-division of markets. The invasion of global sellers bringing new rules of exchange to the domestic market was also taken into account. The personal and civil motives of business leaders, such as a desire to improve social status, were also important for decision-making (Barsukova, 2009a; Radaev, 2002c).

Public authorities also contributed to this evolution. State controlling bodies imposed more control, putting addition-

al pressures upon shadow dealers and trying to improve the fiscal capacities of the state. Most primitive and restrictive forms of corruption were eliminated. Some tax and customs rates were reduced to create economic incentives for tax compliance.

Practically, the legalization of business could not be implemented as a single action, but rather as a continuous process of step-by-step changes in institutional arrangements, balancing positive and negative sanctions (Radaev, 2002c). It took almost a decade for the leading market sellers to purge all forms of shadow dealing and establish a new business reputation.

As a result, the shadow economy has been shrinking over the years, although some facets of it have remained or moved to the online trade sector. New important issues, such as the protection of intellectual property rights, were placed on the agenda. It dealt with the production and distribution of counterfeit goods with the unauthorized stamping (forgery) of commodity trademarks and parallel import of branded goods, which had been introduced into the civil turnover in Russia without the correct authorization of the brands' right holders. Series of applied research projects were carried out by the Higher School of Economics and funded by business association "RusBrand" during the 2000s on the subject of "grey" imports and counterfeit products. Along with overall positive trends observed, they revealed persistent legislation and law enforcement problems as well as many controversies amongst the behaviour of market sellers and final consumers, with particular regard to intellectual property rights. This in turn created a new, largely unexplored area for economic and sociological studies (Primary Trends in the Counterfeit Markets, 2010).

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# How the Law Really Works: The New Sociology of Law in Russia

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## Introductory remarks

The sociology of law in Russia gradually changes its self-identity. Being a synthetic discipline that studies the domain where law and society meet, it naturally depends upon the epistemological traditions of legal scholarship and sociology. Previously, the law and society tradition in Russia was an integral part of legal studies bearing the stamp of its predominantly theoretical approach. Now it acquires a new empirical dimension grounded in the sociological approach and research methods, thus becoming a sub-discipline of sociology rather than a domain of legal scholarship.

The sociologically oriented field of legal studies is composed of scholars who work in the framework of the theory of state and law, which is most commonly found in the Russian law departments and an equivalent of which could hardly be found in any Western university. The theory of state and law mostly develops philosophical foundations of law with reference to state legal institutions. To some extent textbook and other writings on this discipline reflect ideas of the first generation of law and society scholars, such as Emile Durkheim and Max Weber, as well as of the representatives of the sociological jurisprudence movement – Eugene Ehrlich, Oliver Holmes, Roscoe Pound and Leon Petrazycki. Nevertheless, the influence of Russian legal scholars on the understanding of how law operates in a real society is very limited because they mostly build theoretical concepts which are barely connected to law in action.

During Soviet times the theory of the state and the law was a highly ideologically loaded discipline and did not give much attention to facts which required sociological methods. Being restricted in the freedom to pose awkward questions, Soviet sociologists virtually did not develop the sociology of law. For this reason one of the leading Russian sociologists Vladimir Yadov refused to include a chapter on

sociology of law in the thorough volume on Russian sociology (Yadov 1998, p.17).

In contrast to legal researchers who treat law as a self-contained system with its internal logic and evolution, sociologists challenge this autonomy of law and study external social influences. Their research is focused upon the social development of legal institutions, legal behaviour, legal cultures, the legal profession, the application of law, law in action and the like. The sociology of law extends sociological concepts to legal sphere and employs social science methods. The empirical social studies of law do not speculate on the nature of law and its connection to society. Instead, scholars raise specific questions with regard to the structure of legal institutions, their functioning, the conflicts of different social groups with the law, the social determinants of judicial behaviour and so forth (Banakar 2009). Such questions make it possible to develop a number of empirical hypotheses which can be tested with the help of sociological models.

When one talks about formal and informal institutions, it is supposed that formal institutions embrace written rules, laws among others (North 1990), that are assumingly explicit authoritative and coercive exogenous constraints (Suchman/Edelman 1997). Law and society tradition try to overcome this simplified view and seek to describe how exactly legal system operates and show “law in action” (as opposed to “law in the books”). For even though laws are explicit (formal) rules, their application is never straightforward.

The sociology of law in its modern understanding is a new concept for the Russian sociology and is not widely recognized as a discipline with its own developed theoretical background and apparatus of empirical studies. Yet, there are achievements of Russian sociologists in the related fields of criminological studies or the sociology of deviant behaviour (Gilinskiy 2000).

One of the recent developments that gave rise to the new sociology of law in Russia was the creation in 2009 of the Institute for the Rule of Law (IRL) in the European University at Saint-Petersburg. The mission of the Institute is to facilitate judicial and law enforcement reforms and to

uphold the principle of the rule of law in Russia. This goal is pursued by means of academic research, policy-oriented research and the dissemination of its results across the wider community in order to initiate public debates.

The IRL mostly works within the research tradition known as Law and Society, which is wider than pure sociology of law and also takes advantage of related disciplines, such as economic sociology, new institutional economics, law and economics, political science and others. Being one of the most important applications of sociology in the West, the tradition of law and society was previously non-existent in Russia. By conducting and disseminating its research the IRL institutes this tradition in Russia and enriches it by new case studies and data. On the basis of the ongoing research the Institute publishes policy memos containing strategic recommendations on different aspects of judicial and police reforms as well as other regulation issues<sup>1</sup>. IRL also communicates the results of its research on weekly basis in leading newspapers and professional web-portals. Every year it organizes an international conference on the interdisciplinary studies of law and law enforcement in Russia that features major scholars working in the law and society tradition, such as Kathryn Hendley, Peter Solomon, Hazel Genn, Daniela Piana, and others.

In this brief overview we refer to four most interesting areas of studies combining public relevance, availability of empirical data, and sociological relevance.

### How courts make decisions: the study of extra-legal influences on Russian courts

The study of judicial biases has a long history in Anglo-American social science dating back to the 1860s. The scholars who practice the study of judicial biases seek to look beyond the pure legal explanations of judicial events and processes. Judging implies a fair and impartial application of a law to a case. However the desire to make a "fair" decision is often met with subconscious deviations. In western literature there are dozens of studies examining different biases in court, such as gender, racial etc. (Ewick/Silbey 1998; Rose/Diamond 2008; Schafran 1989), but until now Russia has been lacking academic studies in this field. We can only rely on expert evaluation and speculative claims that judges treat representatives of diverse social groups differently.

The IRL's study of court decisions aims at gaining the verifiable knowledge of major regularities implicit in the decision making process in arbitration and civic courts in Russia. It seeks to explain these regularities with a help of a range of factors that determine outcomes of judicial proceedings based on different types of courts, cases, behaviour and status of parties involved, decision-making bias for various categories of offences and so forth.

The study uses mixed methods. The quantitative statistical analysis of courts' decisions goes hand in hand with expert interviews where all the findings are checked and explained. The project is divided into two sub-projects. One studies the verdicts of courts of general jurisdiction and the other deals with decisions of Arbitrazh courts that solve commercial cases.

The quantitative analysis is based on a representative sample of 10000 verdicts on administrative and criminal cases available online and approximately the same amount of commercial cases. Each decision was manually coded in approximately 60 explanatory variables, which were selected to check our research hypotheses on court proceedings and their outcomes. Whereas collecting the sample of arbitration court decisions did not pose any difficulties and over the reporting time from 2006 to the first half of 2011 10500 cases were collected, collecting the corresponding sample of general jurisdiction courts decisions has met with many problems. Despite the fact that the publication of all court sentences is required by law, courts of general jurisdiction comply with it poorly (Pozdnyakov 2011).

Currently, the analysis of the pilot data set for 2009 on the Arbitrazh courts is completed. The particular attention of this research to arbitration court followed its major role in the creation of proper and effective institutional setting for business, especially the improvement of contract discipline. In order for contract enforcement mechanisms to work effectively, proper formal institutional setting should be installed. By standing behind contract agreements, the law makes it easier for contracting parties to choose between different ways of the protection of their agreements. In 1990s the important role of contract enforcement belonged to private coercion executed by criminal groups. These groups provided mechanisms of contract enforcement that could be counted as a substitute for the arbitration court (Volkov 2002) and allowed people to enter into contracts that would be otherwise too risky (Leitzel/Gaddy/Alexeev 1995). The situation had changed significantly in the 2000s, when violence gradually lost its role

as a contract enforcement mechanism and the arbitration court received the relevant priority over alternative private contract enforcement mechanisms (Hendley/ Murrell/ Ryterman 2001; Johnson/ McMillan/ Woodruff 2002).

The analysis of Arbitrazh court statistics shows that about 15% of Arbitrage Courts caseload is generated by state agencies bringing to the courts standard micro-cases requesting a court order to fine or charge some individuals at a level below the cost of filing such cases. Only minor changes in regulation would dismiss the very reason for those complaints, or allow the state authorities to drop the charges that are not worth arguing over, just as a private firm would do (Volkov et al. 2010). It will also allow the arbitration court addressing the cases of its primary responsibility.

The research also investigates the causes and consequences of plaintiff bias in the Arbitrazh courts that has been shown to be statistically significant (Titaev 2011). On average the plaintiffs won in 82 % of the cases, however the status of a plaintiff might increase or decrease its chances in case sentencing. This bias contradicts the tendency in American federal appellate courts where anti-plaintiff bias has been shown to exist (Clermont/Eisenberg 2000). The author considers some possible explanation of this plaintiff bias. Firstly, a deficiency of mediation procedures, followed by the lack of credible commitment, creates a necessity to bring even simple cases to jury, whereas in systems with higher level of reciprocal trust parties could rely on out-of-court dispute resolution. Secondly, judges might treat a plaintiff as an infringed subject whose rights were violated by the defendant. Thirdly, the plaintiff might have put more efforts in defending his or her interests. This explanation however does not find statistical support. Further work on the project includes continuing the analysis of the arbitration court cases database in order to explain how different parties protect their interests and how the court reacts to particular traits of plaintiffs, defendants and a case itself.

After the project is finished we expect to draw the first ever multi-dimensional picture of the work of Russian courts and to establish its functions and uses in Russia today. It will allow us to isolate extra-legal factors that affect the functioning of courts and formulate the ways of improving the system in accordance with the imperative of the rule of law.

## Judges as a professional community: A sociological study

The judicial system has long been in the focus of academic research. Even during the Soviet time the legal researchers understood that the functioning of the court system could not be properly explained by means of law studies alone and required the involvement of other methods. We can find some application of sociological methods to the study of judges' everyday routine and their socio-economic status in the researches of the Institute of State and Law conducted in the 1970s (Kudriavtsev 1975; Baturov 1979). But these volumes were not available to the general public. Most recent analysis of the Russian judicial system was made by the INDEM foundation in the framework of corruption studies (Gorbuz/ Krasnov/ Mishina/ Satarov 2010; Satarov/ Rimskii/ Blagoveshchenskii 2010). The study provides a profound analysis of Russian judicial system based on the thorough investigation of legislation, comparative study of court reform in transitive countries and surveys of population and business on the legal consciousness and attitudes towards courts. However the research of INDEM foundation provides outside perspective of the judicial system whereas the IRL research of the judicial profession aims to describe the internal mechanisms that influence judicial decisions and to create a multi-dimensional picture of the Russian judiciary: demographic data, professional trajectories and recruitment patterns, normative culture, workload, time budgets, decision-making.

This project (directed by Vadim Volkov) is based on the hypothesis that the normative culture of judges (values and norms) directly influences the nature of the judicial process and its results. Without such a research, it is impossible to understand to what extent judges in Russia are inclined to protect the rights of citizens, instead of, for example, advocating the interests of the state or to what extent they share the system of values, traditionally associated with justice.

The legal profession, which embraces lawyers, judges, attorneys and other experts, has long been a subject of a particular interest in the sociology of law and related disciplines, especially law and economics, economic sociology and political science (e.g. Abel 1991; Posner 2008; Baum 1998). Although many studies of the legal profession have originated from the legal scholarship or a more widely understood law and society perspective, this study builds on the theoretical concepts coming from the traditions of

the sociology of professions and focuses on the norms and values of judges as a professional community.

As a starting point this research employs a model which is based on a range of assumptions. Norms and values can be found in any stable professional group. Judges as legal professionals provide specialized service on the basis of their expertise. All community judges acquire patterns of normative culture through professional socialisation. Norms and values regulate the conduct of members of a professional group in a way that serves interests of a society but not their individual interests. Judges' social function lies in resolving conflicts, tension-management, and in protecting human rights, or in a broader sense, they make it possible to utilise the law as a mechanism of social control. The social patterns of judges' normative culture could be described as a set of norms that include affective neutrality, independency, accountability, openness and professional specialisation. Values that legitimate acting upon these norms are justice and legality.

The project also looks at the distinctive characteristics of judges as a professional group and focuses on the set of basic variables such as personal ascribed characteristics (gender, age, family status, geographical mobility), professional socialization (formal education, professional background and experience) and daily professional routines (time devoted to sitting of the court, examination of case detail, preparation of court decision and study of new legislation).

The data collection for this project has been a challenging task, as the courts in Russia tend to be very closed establishments and getting them to share internal information has taken time and some lobbying. The IRL researchers conducted 23 focused interviews with judges. A survey of 759 judges from 5 Russian regions was conducted using a specially designed questionnaire.

While the survey data is currently being processed, some initial results are already available. Judges who have entered the profession in post-Soviet time prevail over the old generation – the majority of judges were appointed after 2002 the year when new law on judicial system had come into force. The majority of Russian judges are women (66%) aged 35-50. This professional group is characterized by low geographical mobility compared to the population in general. The main source of judicial recruitment is the court apparatus (29%) through which mostly young female judges are recruited. Prosecutor's office and police

are also significant sources of newly appointed judges. Other legal professions, especially advocates, are represented much less in the judicial community.

The core values of the community are a composite of legality, the protection of rights, and justice, with legality occupying the core of the value structure. One can distinguish two subcultures within the profession that differ in terms of professional norms. The first group is mostly driven by bureaucratic norms, such as discipline, accuracy, attentiveness and following closely the letter of the law. This group mostly consists of female judges who gained their professional experience as court secretaries or judges' assistants. The second subculture ranks higher such norms as independency, justice, and non-pecuniary interest. Among this subculture we find more male judges of older age who came into the profession from prosecution and the law enforcement agencies.

The study indicates that Russian judges are overloaded and that they have a very limited time for studying and processing cases.

### **Institutional analysis of the criminal process and judicial decisions**

Sentencing involves a series of decisions that reflect the complicated process practiced by judges, prosecutors, defenders, policemen and others involved in enforcing the criminal law. The criminal process and sentencing practices are studied in the framework of punishment theories in criminology, sociology and organizational studies (Gottfredson/Hirschi 1990; Dixon 1995). Russian courts practically never acquit defendants; their decisions are overwhelmingly biased towards prosecution. This research aims to describe the sentencing process, its social determinants and institutional framework from the moment the law enforcement opens a criminal case, and to the moment when the court brings in a verdict.

The study shows that the prosecutor's position in court (namely, the consequences a certain verdict would have on the prosecutor's job evaluation by his superiors) affects the final verdict overwhelmingly. The study discovered significant differences between outcomes in cases where two private parties compete and cases that involve the State Prosecutor. In cases initiated by the authorities the conviction rate is between 74% and 84,7% depending on the case type whereas in disputes between private parties the

conviction rate is 26% (Paneyakh/Volkov/Titaev/Primakov 2010). These data prove the lack of independence of judges vis-à-vis the state.

Institutional approach is applied to explain how coordination effects of legal institutions correlate with transaction costs that come from the application of legal rules (Paneyakh 2011). This study takes the internal bureaucracy of the enforcement system as a starting point in the attempt to explain the sentencing process in Russia. By analysing the structural conjugation of criminal ground-level police, investigation office and prosecution, it is demonstrated how the interplay of bureaucratic practices and conflicting interests of state officials affects the final outcome for the defendant. Each actor of a criminal case processing is bounded by rigid structural constraints that exist in their institutions. For instance, the report and evaluation system that rules the activity of criminal policemen creates ill stimuli for them and results in excessive transaction costs. As a result the criminal police seek to work with investigable cases only and discard most of the others. On the other hand, the structural constraints on the capacity of Russian judges for independent decision-making are built into the judicial system. Any verdict that has displeased the prosecutor constitutes significant risks for the judge in a long run, often undermining their work or career advancement. Prosecution tends to automatically appeal any such decision all the way to the top (as it delays the consequences for the prosecutor himself); and any verdict overturned creates trouble for a judge and his superiors (the chairman of the court at the first place). This means that ruling against prosecution the judge takes risks that may last for years – until all appeal options are exhausted.

### **The copyright law in the Internet: The international practice and implications for Russia**

Internet technologies in Russia develop faster than the legislation and the regulation of this realm, which causes tensions and conflicts amongst stakeholders (copyright owners, platforms, providers, authors, users, regulators, associations and the like) over intellectual property rights. Russia was often blamed for being one of the largest infringers of copyrighted music in the world (Mertens 2005). According to some estimation the illegal downloading of movies and music is three-times more widespread in Russia than in western countries (Karaganis 2011). In the context of the growing commercial potential of the Internet, such

conflicts as well as the Internet regulation in Russia carry increasing gains and losses for particular players as well as for the society in general. The main stakeholders are aware of the necessity to adopt legislative acts regulating copyright in the Internet. But the specific acts and their contents depend upon the understanding of the general policy of copyright regulation on the Internet as well as on a broader idea about the impact of the Internet upon the society.

The IRL has concluded the analysis of the current situation in copyright regulation in Russia based on the series of in-depth interviews with the representatives of all stakeholder groups (Dzmitryieva/Saveliev 2011). The IRL has also studied the present legislation on intellectual property rights in the Internet and its enforcement. The focus of the attention was copyright law, as well as those technological advancements that have rendered some of the old-fashioned legal mechanisms obsolete.

The researchers analyzed the main problems in the field of copyright regulation that resulted from the development of the Internet and Web 2.0 technology. The study of the conflicts about copyright infringement between the right holders and the end users in Russia proves that these conflicts have been largely fuelled by a significant decrease in the costs of producing copies which in turn has led to a widespread file sharing via social and p2p networks. The development of Internet technology has transformed the notion of intellectual products and intellectual property and has led to a deficiency in international and Russian legislation which is based on the legal concepts of pre-digital era. Existence of media piracy illuminates more complicated problem of the current global system when the world as a whole but not a specific country needs to develop new regulation (Boyle 2003; Lessig 2004). Whereas the copyright of analog era provided right holders with the opportunity to gain sufficient revenue from creating and selling the hard copies of their products, and the law has been aimed mainly at protecting the interests of one businessman from the infringement of his/her rights by another actor, in the digital age, the Internet users have received an opportunity to copy and share information over large distances and in large volumes. The intellectual property right holders are now looking for ways to limit the information sharing by users.

The study identifies reasons of the widespread of illegal file-sharing on the Internet in Russia. Some of them are specific to the Russian segment of the Internet; whereas others reflect the general trends in transformation of social

relations caused by the development of the Internet. Specific Russian reasons of widespread illegal content-sharing have an economic basis and are associated with the high price of legal products, their low quality to price ratio and bad logistics that limits the access to legal products. Along with these, there are also infrastructure constraints caused by insufficient development of high-speed Internet access and immaturity of electronic payment systems. The third group of reasons is related to the social organization of the Internet that is based more on a reciprocal and voluntary exchange of information rather than a market exchange.

In this conflict the important role belongs to the Internet service providers (ISPs) due to the inability of the right-holders to sue the actual copyright infringers, namely the end-users, who are anonymous and widespread. Since the ISPs can be easily identified, the copyright holders aim to sue them instead for the compensation damages ensuing from the Internet users' copyright infringement. The copyright holders claim that the file sharing activities by the end users cause huge losses to the audio-, video-, and book industries, which was proved not fully true by different researches (Waldfoegel 2011).

The proposed remedies that could mitigate the conflicts can be analyzed by the means of Law and Economics tradition which can be efficiently applied to the discussion of regulation changes (Calabresi/Melamed 1972; Lemley 2005; Cohen 1999). The first remedy, which is often proposed by the copyright holders, is to enforce severe criminal and administrative liability sanctions on the end-users. There are already several criminal cases against Internet users for copyright infringement. However the application of these legal norms is unlikely to lead to the desired effect. Due to a wide extent of file sharing the law enforcement will be random and will involve significant social and economic costs outweighing possible benefits, and it will not be accepted by the Internet users as a legitimate norm and, therefore, will not change their behaviour. Thus the deterrence power of criminal liability for copyright infringement will be very limited. There exists an alternative, namely a development of a new business model that can minimize the damages to the intellectual property right holders. Several successful start-ups that have emerged in Russia in 2010 have proven that with the help of innovative business models it is possible to achieve a balance of interests of the intellectual property rights holders and the consumers. The second option, which is also often promoted by the copyright holders and by some lawyers, requires an introduction of a strict liability of the Internet

service providers for copyright infringement by their users and for corresponding damages compensation. This is highly ineffective as such measures would pull a large share of financial and human resources into preliminary content monitoring at the expense of developing new innovative projects (Hamdani 2002).

In the end of 2011 the global conflict around copyrighted products has reached a new level as the US Congress and Senate received new bills under consideration – the Protect IP Act and Stop Online Piracy Act. The whole story illustrates how the process of social changes becomes the cause of legal changes and that the process could be painful and sometimes involuntary.

## Conclusion

Russia presents a vast fertile ground for empirical studies in the sociology of law. The condition whereby laws and courts, law enforcement organizations do exist, while the rule of law does not obtain, or when practical, informal laws prevail over formal laws, or, equally, laws are used instrumentally by powerful interest groups requires sociological approach. Legal research can tell us important things about the legal doctrine, reveal inconsistencies in statutes, and identify loopholes that enable the abuse of law. But legal research can give us little knowledge of what happens when law meets real life, when it actually affects or fails to affect human behaviour or produces effects unintended by legislators. The Russian legal realm is much more law in action than law on paper – a condition that invites sociological inquiry of social practice rather than normative analysis of legal texts. The sociological turn in legal studies in Russia is long overdue, and international scholarship can both help to make this turn and benefit from it.

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## Endnotes

<sup>1</sup>All memos and articles are available at the IRL web site: [www.enforce.spb.ru](http://www.enforce.spb.ru).

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# Commercialization of Police and Shadow Economy: The Russian Case

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Recently, J. Beckert and F. Wehinger (2011) argued about the importance of studies of illegal markets for economic sociology. When approaching this field one should keep in mind that the dividing lines between legal and illegal markets are often blurred. It is especially true for transformation countries with underdeveloped institutional setting and a lack of traditions of democratic legal regulation of economic behaviour.

In this paper we consider these blurred boundaries taking an example of the shadow economic activities of police officers in Russia, in which the legal and illegal components are closely interconnected. We use a body of literature and empirical research compiled in the 2000s in Russia to shed some light on the off-duty activities of police officers as economic actors.

## Studies of police involvement in shadow economy

The police are expected to provide law and order as a public good for society. In other words, the police have to be a part of the “function of pattern maintenance”, in terms of T. Parsons (Münch, 2006; Zafirovski, 2006). If the police are a tool for maintaining law and order, they contribute to social integrity and equilibrium. Meanwhile, in many transformation countries this tool for normative regulation has turned into a vehicle of institutional subversion due to extensive police involvement in the shadow economy. Moreover, in many transformation countries, including Russia, this involvement is widely spread in the fields of business and politics. This controversial character of the police activity presents a complex task for policy-making and an interesting research question for economic sociology. Below we summarize publications investigating police corruption and moonlighting in Russia as a socially embedded phenomenon.

Conventionally, in most of the studies the regular actors in informal and shadow economies are viewed as entrepreneurs and/or regular citizens including small business people, ethnic entrepreneurs and immigrants (for a comprehensive overview of current approaches of economic sociology to informal economy, see: Portes, Haller, 2005). As for the police officers, they are mostly treated as representatives of the government combating against illegality or, conversely, as corrupted violators of the rules. They are not seen as the regular market actors though in many developing and transforming societies, including Russia, they are heavily involved in informal and shadow economies.

There are four research groups in Russia conducting nationwide empirical socio-economic studies of police corruption and moonlighting. The first group is at the independent think tank INDEM Foundation (G. Satarov, V. Rimskiy, U. Blagovezhensky, I. Vinukov, S. Parhomenko, M. Krasnov, M. Levin, K. Golovschinsky). Their research is focused on corruption including corrupt police practices. They investigate both petty corruption and executive corruption of senior public officials.

The second group works at the Institute for the Rule of Law at the European University in Saint Petersburg (V. Volkov, E. Paneyakh, K. Titaev, A. Dzmitrieva, M. Pozdnyakov). The main focus of their research is on law enforcement practices of the police, courts and other bodies (including the use of law by the police as a tool for making money), and the institutional restrictions of effective law enforcement in Russia.

The third group is conducting research at the Analytical Centre of Yury Levada (L. Gudkov, B. Dubin). They concentrate on the issues of “privatization of police” in Russia, its involvement in shadow economy and institutions provoking the market activities of the police.

The fourth group is based at the National Research University – Higher School of Economics (L. Kosals, D. Strebkov, E. Berdysheva, T. Karabchuk, A. Dubova, M. Kravtsova, A. Belyanin). It cooperates with their colleagues from the USA, Germany, Bulgaria, and Kazakhstan. These studies include sociological surveys and lab experiments into cor-

ruption as well as analysis of the conventional economic activities of the police, such as off-duty employment (body-guarding, legal consultancies etc.).

### The scale and scope of police involvement in shadow economy

According to the Russian Federal legislation on the law enforcement agencies, police officers in Russia are not supposed to earn additional income to that of their police salary, excluding activities in the fields of art, academic research, and teaching. Meanwhile, police officers carry out a large number of commercialized activities, both legal and illegal, including: guarding/security services for commercial companies, legal consultancies, paid services for criminal groups, entrepreneurial activity, patronage of business entities, violent takeover of businesses and private residences, creating/erasing criminal files, collecting and selling of datasets and other professional information, selling of confiscated drugs, arms trafficking, racketeering, collecting bribes from people and legal entities, etc. (Kolennikova et al., 2002). Corruption is only an element of this plethora of activity.

Involvement of the police in the shadow economy in Russia has not been decreasing over time. According to a survey of more than 2000 police officers in eight Russian regions, nearly half of them, on average, are involved in illegal economic activity (Kolennikova et al., 2002). Among the surveyed regions, Moscow was found to be "highly commercialized" with two thirds or even three quarters of respondents earning off-duty income. The rest of the surveyed regions were acknowledged as "moderately commercialized" (Nizhny Novgorod, Irkutsk, Rostov, Krasnodar, Omsk, and Voronezh) with 36-45% of police officers involved in shadow economy. No regions were found to be completely non-commercialized.

According to data collected by L. Gudkov and B. Dubin (2006), the involvement of police officers in shadow activity is even higher: more than 80% of respondents make their off-duty income. Not all of these activities are strictly illegal but even legal activity of this kind creates a breeding ground for corruption and misconduct. The most common sources of additional income were guarding services (reported by 58% of respondents), work as unlicensed taxi-drivers (36%); paid services for individuals and companies (18%); collecting informal payments in lieu of penalties (17%) and bribe-taking (14%). It is remarkable that more

experienced and skilled officers are more involved in corrupt activities.

Corruption generates the largest part of the additional income of police officers (Kolennikova et al., 2002; Satarov et al., 2005), providing 80% of all off-duty income in 2001. A dramatic increase in police corruption in relationships with business was observed in 2001-2005 (Satarov et al., 2005). The latest studies (Satarov et al., 2011) also demonstrated an increase in petty corruption within the police.

Police involvement in the shadow economy is not just a result of the deviant behaviour of some "bad cops". It is highly institutionalized activity. This means that big groups of highly-ranked officers and heads of departments are involved permanently. They can manipulate the running of their departments to generate revenue from "clients", regular citizens or business people. A good example is the creation and deletion of criminal files against business people. As Volkov, Paneyakh and Titaev (2010) reported, in the 2000s one could witness a rapid growth of registered economic crimes (fraud, embezzlement etc.). However, this growth means high numbers of the commencement of proceedings while only from 20 to 40% of these criminal files reach a court trial, and less than 20% lead to convictions. This is in stark contrast to such crimes as murder or rape, for which the law enforcement system almost does not allow the dropping of cases that have been initiated.

These conclusions are confirmed by the results of other studies. At the beginning of 2000s, 23% of interviewed police officers pointed out that businessmen donate money into special funds to assist law enforcement agencies, to purchase computers and office equipment (46%), to get paid part-time work (20%). Only 37% of police officers reported on the absence of support from businesses (Kolennikova et al., 2002).

In one sense this means that legal procedures in contemporary Russia are often "economically embedded" (cf. "social embeddedness" by Granovetter, 1985). They are not designed to maintain law and order but rather focus on the private interests of certain groups of law enforcers. It also shows the commercialization of the professional relations between individual officers and even between various departments. For example, if an investigating officer wants to transfer a criminal file to the court, he/she sometimes has to pay for this. Otherwise, this file will remain in pending. The literature does not contain a complete list of reasons why police officers have to pay in one

case and do not have to pay in others, nor is there any information regarding the extent of commercialization. However, there is no doubt that this practice is widespread and informally institutionalized.

## Socioeconomic causes of police involvement in shadow economy

Police involvement in shadow economy has been widely studied during recent decades. Criminologists and economists were involved in this kind of research. Economists mainly focus on measuring corruption, while criminologists investigate the social roots of police moonlighting. Many criminological studies are close to economic sociology though criminologists normally consider the police shadow economy as deviant behaviour. There are three general approaches suggested by criminologists for understanding of the fundamental reasons for police corruption: the *rotten apple approach*, the *rotten barrel approach*, and the *rotten orchard approach*.

The *rotten apple approach* postulates that market activities were brought to the police by defected individuals, or so called "rotten apples," as a result of an adverse selection process. This approach derives from the popular trend within the police to accuse 10% of officers in 90% of incidences of shadow economy (Alpert, Walker, 2000; Punch, 2003). Police management usually adheres to this approach because it allows them to hide the true extent of the widespread corruption networks within the police. Therefore, when incidence of economic activity is revealed, the problem is resolved by punishment of several "guilty" officers (Sherman, 1974; Goldstein, 1975; O'Connor, 2005).

The *rotten barrel approach* explains the occurrence of shadow economy within the police as a group phenomenon. It is assumed that "newbies" arrive to the police "clean" and then are "infected" during the socialization process (Sherman, 1985; Stern, 1962; Punch, 2000; Stoddard, 1968). According to this approach, the shadow economy activities are embedded in the group norms, i.e. organizational culture, which is determined by a combination of professional obligations such as fighting criminals, supporting victims and providing a lay-low attitude because of excessive regulation and bureaucracy (Skolnick, 1994; Westley, 1970; Herbert, 1996; Brown, 1988). As a consequence, officers view themselves as a minority group and adhere to the principle of "us versus them," which leads to a high level of organizational closure and compli-

ance with a code of silence (Stern, 1962; Lambou, 2010; Kappeler, Sluder, Alpert, 1994; Westley, 1970; Klockars, Ivcovic, Harberfeld, 2006). Hence police culture stimulates the expansion of the shadow economy and carefully hides it.

The *rotten orchard approach* is focused on the environment in which police operate. According to this approach, the shadow economy is stimulated neither by rotten apples nor by rotten barrels but by the defects of the formal and informal institutions within society – rotten orchard (Punch, 2003). The spread of shadow economy among police officers is primarily determined by the inclination of the population and the government towards bribery, by a lack of moral principles within society (Kurkchian, 2001; Stern, 1962), by state political regime and by the eroded law enforcement system (Newburn, 1999). Therefore, policemen consider their participation in the shadow economy as a socially acceptable activity.

The outcomes of the Russian studies (Kosals, 2005; Paneyakh, 2011; Paneyakh, Titaev, 2011) indicate that these approaches can be applied to provide explanations of shadow economy in the Russian police. There are five major causes that can be found in the literature.

First, at the very beginning of economic transformation in Russia there was a boom of organized crime. In 1992-1995 the number of murders (including attempted murder) increased from 16,000 to 32,000 thousand a year and the number of contract killings increased from 102 to 560 registered cases (Lokk, 2003). There had emerged a huge demand for security services: according to the data of Vadim Radaev (2000) obtained from a survey of Russian enterprise owners and managers, more than a half of the surveyed firms spend some of their income on the safety and security of their business. Two thirds of them spend 10-15% of their income and one third spend about 30% of their income. Of course, this increasing demand stimulated involvement of the police into the market activity.

Second, police officers suffered from their relatively low wages and poor working conditions. This was due to the lack of state funding and neglecting of the police's basic needs in the 1990s. In this situation, many law enforcement officers moved on the business side of the process. Criminalization of the elite also contributed to the illegal activities of police.

Third, the Russian ruling class establishing conditions for the privatization of former state property put law enforce-

ment agencies under strict control. As a result, on the one hand, the police were not allowed to participate directly in the privatization. On the other hand, they were instrumentally used in the process of privatization, and therefore, get involved in collection of information, protection services, etc.). It created favourable conditions for business activity within law enforcement agencies.

Fourth, emergence and development of police economic activities was encouraged by the destruction of old Soviet ethics in law enforcement agencies, which were largely (though not entirely) based on the Communist party affiliation and Soviet ideology. The decay of these institutions, the inevitable transition to a market economy and democracy led to the erosion of the former professional code. Instead, there was a spontaneous emergence of market ethics: "you've got straps, a head on your shoulders - go out and earn your money" (quoted from an interview with a middle-ranked officer in Moscow, 1993).

Above all, there was a fast expansion of the code of silence within the police, which can be defined as a set of informal and unwritten rules and norms that delineate acceptable behaviour and prohibit whistle blowing (Ivkovic', Klockars, 2000). The code of silence forces officers to place corporate integrity above honest behaviour (O'Malley, 1997) and even if a policeman is not involved in shadow economic activities, she/he normally complies with the code of silence (Sherman, 1978). This code is a characteristic of the police both in developed and transformation countries. Factually, it supports hidden corruption and misconduct (Skolnick 2002), which is especially true for the transformation countries with weak public and governmental control over the police. The code of silence protects the police officers from external inspections and the public eye. Over the past two decades this ethic spread among major segments of law enforcement agencies and became a well established and relatively independent normative regulator of their behaviour.

Fifth, police involvement in shadow economy was stimulated by the system of evaluation and reporting within the Ministry of Internal Affairs (Paneyakh, 2011). We have a clear example of overregulation here. This excessive regulation and reporting on their performance increase transaction costs to a prohibitive level. ("Every step is paved with pieces of paper"). It also eliminates focal effect ("control") by virtue of opaque practices that provide external, formal correspondence generated by the reporting of all multiple rules simultaneously. The result, which arises at this jun-

tion between systems, is not a compromise between the objectives of regulators but is a compromise between the interests and objectives of the actors.

The reasons that were observed above are mainly derived from the rotten orchard approach. Thus, the business activity of the police officers is not a result of individual mistakes and deviant behaviour of some unscrupulous individuals. It is embedded in economic and institutional arrangements.

### Socioeconomic and political consequences of large-scale police shadow activity

All relevant research that was carried out in Russia in the 2000s indicates that there is institutionalization of police shadow activity. The economic activity of police officers is no longer just treated as a kind of "deviation." It has actually become a norm (Kolennikova et al., 2002). People are by no means shocked or even surprised when they have to pay to a police officer for the fact that he/she actually started looking, for instance, for a stolen car, or gets engaged in "investigative activities" into a robbery. At the same time, law enforcement officers are very rarely punished for commercial activity. All in all, economic activity within the police is widespread, has become customary and normally avoids sanctions from the state.

This is demonstrated by the emergence of relatively stable groups of police officers engaged in shadow business in cooperation with the other law enforcement agencies (prosecutors, authorities for control over illegal drug trafficking etc.), courts, other governmental bodies, private companies and sometimes organized criminal groups. Criminal cases of the "raiders of consumer goods" and the "chemists' criminal case" may serve as examples of institutionalization of such practices. Both cases were observed during the second half of the 2000s and begot various consequences from developing new business associations.

In the case of "raiders of consumer goods", policemen falsified documents of criminal cases at the preliminary stage of investigation, which showed that firms had stored allegedly smuggled goods in warehouses. For each of these, artefacts from the criminal case were seized from warehouses rented by the owners of the goods. Later the police concocted "expert evaluations" via mediators and the price of the seized goods was cut to nearly 10% of the

market value. Then the investigator issued a decision on the sale of the goods at this minimal price to their "crony" firms. Later they resold the goods at the market value. The most prominent cases were the seizure of 400,000 cell phones owned by several retailers in 2005 with the illegal income of the "raiders" estimated as \$50,000,000 (Rubchenko, 2007) and the seizure of more than 160,000 Motorola cell phones owned by chain store company 'Evrosset' in 2006. The head of Evrosset', Evgeniy Chichvarkin, has since immigrated to the United Kingdom. In these cases the police people operated together with prosecutors, evaluation companies, judges and officials from the Russian Fund of Federal Property as well as "crony" companies. The Ministry of Internal Affairs officially protected their activities, disseminated press-releases and announced these criminal cases via major TV channels.

The "chemists' criminal case" was initiated by Gosnarkontrol (official Federal service for the control of illegal substances and drugs). In 2005 they initiated hundreds of criminal cases against producers of diethyl oxide, sulphuric acid, hydrochloric acid and other solvents. Numerous business people were arrested and charged as producers of a dangerous chemicals using in the production and synthesis of narcotics (meanwhile, the majority of drugs dealt in Russia is imported and in all these cases there was no evidence that solvents were used to produce drugs; the charges were only related to their trading). In most cases people affiliated with Gosnarkontrol presented these previously charged businessmen with the opportunity to sell the chemicals in question to their "crony" companies and/or to pay bribes to ensure their release from prison or to have their charges dropped. The Moscow branch transferred 248 criminal cases against 303 people to court between 2004 and 2007 (Fedorin, 2008). The number of cases opened was much greater and explanation of this difference is ongoing. Gosnarkontrol executed this in cooperation with police, courts and the Ministry of Healthcare and Social Development.

In both cases, police bodies found and exploited loopholes in the law to develop or suppress activities or to make money. In the case of "raiders of consumer goods", there was a special government instruction which allowed police to sell out material evidence without a court decision or confirmation by the owner. In the second case there was a lobbying by Gosnarkontrol for the inclusion of many solvents in a list of precursors used in the production of narcotics. The compounds in question have since been removed from this list, although the general socioeconom-

ic and political conditions for police involvement in such shadow activity are still in place.

The economic activity of police officers has its own specificities, in contrast to the activities of conventional economic actors. Firstly, it is carried out in addition to the core duties of law enforcement. Formally, the state as their employer hires them to maintain law and order. However, during the routine execution of their duties they begin to exploit their status for earning money in the market. This activity is seen as a kind of "extension" of their formal role, a private continuation of the performance of basic duties to meet the demand for private security, transport, violent services (the intimidation of competitors) and other services. Of course, in the eyes of the law, this activity is illegal and prohibited.

As market players, policemen have competitive advantages over all others. These advantages are twofold. First and foremost, as government employees, they have additional features, ranging from police uniform to the access to personal and commercial information. What is important here is not that businessmen in uniform are *ceteris paribus* more and that their revenue from their business activity is higher than that of other market participants. The problem is that such an inequality distorts market relations in general and creates a precedent where someone earns more than others not because they produce goods or services that are cheaper or of better quality but because they belong to a particular government agency which should provide free services to the entire population. This is a very bad sign for all market actors, especially for potential businessmen, who only think about starting a new business. They see that to succeed in business you must have not only entrepreneurial talent and available resources, but be affiliated with a certain state agency. This has a most depressing effect on the development of the Russian economy as a whole (Kosals, 2005).

In addition, police officers as market participants have a unique asset that others do not possess, namely, the violent resource. In the emerging Russian market, where standards of doing business have just formed, this resource has a particular value. In principle, the use of force is a state monopoly. However, in practice, this resource has been privatized and serves to the private interests. The privatization of this power resource has seriously affected the formation of the Russian market system. Demonopolization of rights of using violence leads to the spread of the use of force and deterioration of corporate

ethics. The public police are increasingly turning to private protection agencies and even criminal groups (Gudkov, Dubin, 2006). This is far from the standards of a modern civilized market within which disputes and conflicts are resolved in courts.

As Vadim Volkov (2005) argued, the privatization of major state functions still remains an unresolved problem since the 1990s. The weakness of the Russian state does not originate from the lack of personnel, facilities or organizational or financial resources. It comes from the considerable autonomy of law enforcement agencies complying with the private commercial interests rather than with the formal rules and goals determined by public interest. Accordingly, this "privatization" of the state has very contradictory consequences. If the civil service becomes a business, the strengthening of the state power only enhances entrepreneurial opportunities for civil servants.

In addition, there is a high level of inequality within the police community (Kosals, 2005). First, some police officers work in the labour market as security guards, drivers, and the like. This category includes the majority of police officers seeking to survive on a low wage. The other category of police officers includes the "businessmen in uniform" who use their status and connection to develop businesses of their own.

Thus, police officers present a peculiar type of the market actor combining public function of law enforcement and private economic activities. Such involvement of the police in economic activity has a negative effect on performance of their official duties. This conclusion came from the responses of policemen to the question of whether off-duty work impacts on the main professional activities of police officers. Only 8% of the interviewed police officers reported that off-duty work has a positive effect on their primary official duties, while 56% of them pointed to a negative effect (36% of respondents believe that it has no effect at all).

The involvement of police in the market activity also has important political implications for it creates additional risks of the state capture by divergent private interest groups. There is also a tremendous amount of negative consequences for the institutional and economic development, including: i) insecurity of property rights, ii) destruction of long-term economic motivation for investment and innovation, and iii) deterioration of entrepreneurial spirit and business ethic.

## Conclusions

The shadow activity of the Russian police constitutes a special illegal market with some legal components. Meanwhile this is not a fully "predatory" behaviour striving to its own enrichment only (Gerber, Mendelson, 2008). There is an obvious orientation towards providing services to the authorities and to businesses but ignoring demands for the security of the common people (so called "police of a divided society").

In fact, there is some sort of social contract between the police, authorities and businesses (Kosals, 2005). On one hand, the government saves money on the police's funding and uses police for resolving disputable issues related to privatization and political elections. Moreover, the various clans within the economic and political elite enjoy the possibility of actual privatization of law enforcement agencies.

On the other hand, the public authorities turn a blind eye to the active police market activities. The police can put much of their efforts to make money. Of course, such a consensus is not a result of deliberate arrangements between the police and authorities or a malicious strategic plan. It has emerged as an important by-product of Russian transformation to a market system (Solomon, 2005).

It would be productive to categorise the police involvement in shadow economy by synthesizing three complementary approaches including economic sociology of illegal markets (Beckert, Wehinger, 2011; Gambetta, 2009), social contract theory (D'Agostino, Gaus, Thrasher, 2011; Freeman, 2007), and the embeddedness view (Granovetter, 1985). This can help to reveal why this phenomenon is so sustainable in spite of all the social, economic and political costs.

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# Informal Employment in Russia: Why is it so Sustainable?

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## Introduction

The problem of informal employment (or employment in the informal sector) has been widely discussed all over the world for more than 40 years. Following the definitions of Keith Hart (1973), ILO launched the concept of the informal sector, and in 1993 the informal sector was included on the agenda of the 15th International Conference of Labour Statisticians (ICLS). Initially, informal employment was seen predominantly as a phenomenon of developing countries (Marrick, 1976; Portes, 1994; Saavedra, 1999), but later its importance was also recognised in developed European countries (Portes, Sassen-Koob, 1987; Sassen, 1997; Williams, Windenbank, 1998) and in particular for post-socialist countries (Braithwaite, 1995; Guarigla, Byung-Yeon, 2001; Barnabe, 2002; Gimpelson, 2002, 2006; Lehmann, Pignatti, 2008) where the strict labour laws are accompanied by their non-effective enforcement.

In Russia's case, according to Rosstat (The Russian Federation Committee on Statistics) the number of those informally employed in Russia has been growing since 1991, from less than 2.5 million to about 14 million workers in 2009. Informal employment became a safety net during the shock therapy of the 1990s in Russia (Varshavskaya, 2002; Gimpelson, 2002; Barsukova, 2003; Kubishin, 2003; Sinyavskaya, 2005; Kapelyushinokov, 2006). It was a way to earn money when the country's wage arrears were deepening and was a survival strategy for those enterprises bound by the rigid legislation in the drastically changing economic climate. Interestingly, we do not see a downward tendency for the informal employment rates during the years of economic growth and after the partial liberalisation of the labour laws (2002). Why is the informal sector in Russia so sustainable both in good and bad times?

This paper is aimed at reviewing the existing publications on the informal employment in Russia and investigating the following issues:

- What are the scale and dynamics of informal employment over the last ten years?
- What is the structure of informal employment?
- Why was there no decline in informal employment rates in Russia during the years of economic growth?

Most economists studying Russian informal employment focus upon its scale and scope, the structure and the reasons for informal employment, (Gimpelson, 2002, Varshavskaya, Donova, 2003; Sinyavskaya, 2005; Kapelyushnikov, 2006; Gimpelson, Zudina, 2011; Karabchuk, Nikitina, 2011) whereas sociologists address the effect of informal employment upon the Russian economy and the social mechanisms of its formation (Fadeeva, 2001; Barsukova, 2000, 2003, 2004; Zaslavskaya, 2002; Latov et al, 2005).

This paper deals with the main approaches and definitions of informal employment, data sources and measurement, the scale and scope of the informal employment, and the reasons for its sustainable growth.

## Definitions

There is still no single definition of the informal employment. Some researchers refer to the International Labour Office recommendations. According to the 15th ICLS conference resolution, *employment in the informal sector* was defined as employment comprising all jobs in informal sector enterprises<sup>2</sup>, or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or secondary job. The conceptual framework endorsed by the 17th ICLS relates the enterprise-based concept of employment in the informal sector in a coherent and consistent manner with a broader, job-based concept of informal employment. The 17th ICLS defined informal employment as comprising the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period (Report of the 17th

ICLS conference, 2003). According to this resolution informal employees include:

- Own-account workers and employers engaged in their own informal sector enterprises<sup>3</sup>
- Contributing family workers employed both at the formal or informal sector enterprises<sup>4</sup>
- Employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households
- Members of informal producers' cooperatives<sup>5</sup>
- Own-account workers engaged in the production of goods exclusively for consumption by their households (such as subsistence farming or do-it-yourself construction of private housing)" (Husmanns, 2004)

One should not confuse the terms of "informal employment" and "employment in the informal sector". "Employment in the informal sector" and "informal employment" are concepts that refer to different aspects of the "informalisation" of employment and to different targets for policy-making. They are not substitutes, but rather complementary concepts. They need to be defined in a more coherent and consistent manner to avoid the confusion that is often created by their users. The latter are often unaware of the differences in observation units: enterprises on the one hand, and jobs on the other (Husmanns, 2004).

Taking into account internationally recognised definitions, Rosstat adopted a new official methodology of the defining and measuring of employment in the informal sector in 2001. The lack of official registration as a legal entity was used as a single criterion for delineating informal units. The informal sector now includes (Gorbacheva, Ryjikova, 2004):

- Individual entrepreneurs and farmers' households not registered as legal entities
- Individual professionals (doctors, notaries, auditors, etc)
- Individuals providing paid services for housekeeping (cleaners, personal drivers and etc.)
- Employees hired by individual entrepreneurs
- Members of producers' cooperatives

- Individuals engaged in the household production of goods to be sold on the market.

Rosstat also presented a definition of informal employment (or employment in the informal economy) which incorporated the following categories (Gorbacheva, Ryjikova, 2004):

- Employed in the informal sector (listed cases above)
- Contributing family workers in the formal sector
- Employees hired informally by companies of the formal sector

The first paper using official nationwide Rosstat data and the new official methodology was published by Vladimir Gimpelson (2002). The main conclusion was that informal employment had grown from 2.5 million to 8 million workers in the 1990s and played a role of a safety net for the Russian labour market. The better part of the informal sector comprised the individual entrepreneurs and the self-employed. The author argued that it was impossible to formalise the informal sector at that time.

Since that time, two major approaches have been introduced. Most of the authors define informal employment as unregistered employment (hired or self-employed) (Varshavskaya, Donova, 2003; Sinyavskaya, 2005; Karabchuk, 2006; Karabchuk, Nikitina, 2011).

The other authors define informal employment on the basis of the enterprise's characteristics (Gimpelson, 2002; Gorbacheva, Ryjikova, 2004; Gimpelson, Zudina, 2011). This approach stems from the Rosstat methodology and broadly from the ILO conventions.

## Data and measurement

The availability and quality of data is an important issue. There are at least five large and representative micro data sets which can be used to investigate the informal employment in Russia.

1. The first data set was collected from the Labour Force Survey, conducted by Rosstat since 1992. It is the largest representative survey with a very detailed questionnaire, and with a sample size of 250 to 500 thousand people per

year. The questions about informal employment are included since 1999.

Four main papers were written on the basis of these data. Gimpelson (2002) focuses on the scale and main features of employment in the informal sector. Gorbacheva and Ryjikova (2004) pay close attention to the measurement of informal employment. Kapelyushnikov (2006) describes household economies and measures their principal characteristics. Gimpelson and Zudina (2011) reveal the factors behind the probability of being employed in the informal sector. Their main results will be discussed in the next sections of this paper.

The following categories of workers are usually attributed to informal employment by the LFS data:

- Privately hired by others
- Self-employed individuals, individual entrepreneurs and farmers without the registration of a legal entity
- Those employed in unregistered farming households or by individual entrepreneurs
- Those employed in households producing goods and services for the market
- Those employed in the formal sector without a written contract (Gimpelson, Zudina, 2011)

2. The second data set comes from the Russian Monitoring Longitudinal Survey of the Higher School of Economics (RLMS-HSE), the annual panel household survey, which collects data from 10-11 thousands respondents in each wave. The questions about formal/informal contract were added in 1998.

Informal employees were distinguished on the basis of the following criteria in the RLMS-HSE study (Sinyavskaya, 2005):

- Working for the family company or hired by individuals
- Hired by the enterprise with no written contracts

One more classification was presented by Karabchuk and Nikitina (2011), including:

- Working for companies with less than 5 workers

- Working out of the enterprises

- Working for companies without a written contract

The detailed information about the data and the methodology of informal employment assessment could be found in the first papers based on RLMS data and published by Braithwaite (1995) and Foley (1997). They evaluated informal employment in the beginning of the 1990s, mostly as casual work and began a flow of publications. Sinyavskaya (2005) provided a very detailed analysis of informal employment. Karabchuk (2006) investigated casual employment as a form of informal employment. Karabchuk and Nikitina (2011) concentrated on casual and informal employment characteristics, including health and social well-being.

3. NOBUS (Household Survey of Social Welfare) conducted by Rosstat and The World Bank is the third nationwide representative data set, giving opportunities to analyse informal employment. This cross sectional study was conducted only in 2003. There were no publications based on NOBUS which would be devoted specifically to informal employment, but we were able to find some information on the temporary employment factors that included the discussion of an oral agreement for employment as an example of informal employment (Karabchuk, 2011).

4. Many scholars use the VCIOM (The All Russia Survey of Social Opinion) data to study informal employment (Perova, Khakhulina, 1997; Maleva, 1998; Sinyashkina, 1998; Varshavskaya, Donova, 2003). It is based on a sample of more than 43,000 respondents from 1998-2000, when questioned about registered or unregistered employment relations. The informally employed were supposed to evaluate their job as "hired by oral agreement" or as "engaged in individual entrepreneurship without registration as a legal entity".

5. One more data set was collected by the Moscow Carnegie Centre in 2000 with a sample of more than 5000 respondents. Informal employees are identified here as self-employed workers, individual entrepreneurs, or hired workers without formal contracts. Sinyavskaya (2005) demonstrated the advantages of the MCS questionnaire, which enabled the following of both theoretical definitions and Rosstat recommendations. At the same time, Sinyavskaya claimed that RLMS-HSE data overestimated the scale of informal employment.

There are also many small surveys that were conducted specifically for studying informal employment, including experts' interviews and standardized sample surveys (Varshavskaya, 2001; Fadeeva, 2001; Khotkina, 2002; Kurbishyn, 2003; Barsukova, 2003; Latov, 2005). We will turn to some of their results below.

## The scale and main characteristics

The rates of the informal sector employment are regularly calculated by Rosstat and published in "Trud and Zanyatost" (Labour and Employment). It demonstrates an overall tendency of a continuous growth of informal employment in Russia from 11% of workers in 2000 to 19.5% in 2009.

There is a significant variance in the assessment of informal employment caused by differences in definitions and approaches used by the authors. Those authors who follow the secondary job approach produce higher numbers of informal employment, (Varshavskaya, Donova, 2003), while those who rely on the official Rosstat data neglect the information on employment based on oral agreement and tend to give lower numbers of informal employment rates (Gimpelson, 2002; Gimpelson, Zudina, 2011). We believe that the most productive approach treats informal employment as unregistered employment at the companies both in formal and informal sectors of the economy (Sinyavskaya, 2005). This approach could be tested by using MCS, RLMS-HSE and VCIOM data.

In early 2000, the rate of informal employment for the population of 15-72 years was 18% and 16% according to the MCS and RLMS data respectively (Sinyavskaya, 2005). According to the Rosstat data, about 10% of the total employment was concentrated in the informal sector (Gimpelson, 2002; Gorbacheva, Ryjikova, 2004). They were predominantly the self-employed and those engaged in household family businesses. Soon, the structure of the informal sector began to change. A decreasing number of people were working in the household economy producing goods and services for the market, whilst the number of individual entrepreneurs and self-employed workers increased. In 2009 almost every third person in Russia was working in the informal sector (Gimpelson, Zudina, 2011). At the same time, unregistered labour relations cover 17,2% of workers, based on RLMS-HSE data (Karabchuk, Nikitina, 2011).

One of the main features of informal employment in Russia in the early 2000s was a large contribution of secondary employment to the informal sector. Gimpelson (2003) and Varshavska, Donova (2003) showed that from 65% -70% of informal employees had at least two paid jobs. At the same time, Gorbacheva and Ryjikova (2004) claimed that only in 20% of these cases is informal employment additional to the primary jobs in the formal sector. The difference in figures could be explained by different approaches again. Those who are engaged in the informal sector usually do not have secondary jobs, whilst those who are employed in the formal sector are more likely to have secondary jobs.

The social and demographic profile of the informal workers is rather similar in the reviewed studies, in spite of all the differences in the databases. As Rosstat data illustrated, workers in the informal sector are mostly young men with a low level of education, who tend to concentrate on trade, construction and services (Gimpelson, 2002, 2003). The same results have been demonstrated on the basis of MCS and RLMS-HSE data. The rates of informal employment are rather high in service industry (trade and catering) as well as in construction and transport. The highest rates of informal employment have also been observed amongst the younger generation (15-29 years old). Informal workers are mostly males with low education. They are more mobile; the average tenure in informal sector was 2.9 years, while the average tenure in the formal sector was about 10 years by the mid 2000s (Sinyavskaya, 2005).

A hypothesis implying that informal employment could be a transition stage from unemployment to the formal sector employment has been rejected. The panel RLMS-HSE data showed that only 1.8% of those who were unemployed were able to find their jobs in the formal sector after previous informal employment (Sinyavskaya, 2005).

In conclusion, we have the following typical portrait of the informal worker for the beginning of the 2000s – "it is a man under 30 without tertiary education and living in the urban area" (Varshavskaya, Donova 2003). Russian women tend to have more secure and stable jobs. In 2009-2010 we see a very similar portrait, but the features of the informal workers were specified (Karabchuk, Nikitina, 2011). Amongst workers of the small organizations with less than 5 people, we would most probably find females of between the ages of 26-45 with professional secondary education and those employed in the service sector. Amongst those hired without formal written contracts, we would

see young males under 25 with low qualifications and education levels. Self-employed people are largely recruited from the group of married men under the age of 35 with a full secondary education and who now operate in the service sector (Karabchuk, Nikitina, 2011).

## Factors of the informal employment

What does informal employment entail? Both the level of the formal regulation of informal employment and law enforcement play an important role here (Gershuny, 1999). Russia clearly demonstrates the scenario in which a combination of strict regulations and poor law enforcement contributes to the increase of informal sector employment. One of the main reasons why people choose informal employment is the opportunity to receive a regular informal income (Bernabe, 2002; Sinyavskaya, 2005). In the changing environment and formation of the market economy, employment in the informal sector became a coping strategy for the households, given the imperfection of the current legislation; lack of flexibility, low level of compliance with the laws, and restricted legal opportunities which might bring an additional income (Clarke, 1999; Khotkina, 2002; Gimpelson, 2002; Sinyavskaya, 2005; Kubishyn, 2003).

The increasing share of informal workers amongst the younger generation who were entering the labour market was an additional reason for the general increase of informal employment. It was also surmised that the lack of "good" jobs in the economy force people to search for a better use of their energy (Sinyavskaya, 2005). Gimpelson and Zudina (2011) also suggested that the informal employment growth results from the gradual decline of employment in the formal sector, affected by the low quality of the institutional environment.

We observed the following links between the social and demographic factors that affect the probability of becoming an informal worker: Having a family is negatively related to the probability of informal employment, and low-skilled workers and service workers have more opportunities to become informal employees (Varshavskaya, Donova, 2003; Sinyavskaya, 2005; Gimpelson, Zudina, 2011; Karabchuk, Nikitina, 2011).

However, the following factors have a rather positive impact on the probability of informal employment. We found that short-term employment in the private sector, having a

secondary job, the small size of the enterprise, the creation of new jobs in trade and construction industries (Varshavskaya, Donova, 2003; Sinyavskaya, 2005; Gimpelson, Zudina, 2011; Karabchuk, Nikitina, 2011) all increased such a probability.

## Conclusions

All the reviewed papers provide more or less similar figures for the rates of informal employment, despite the differences in the applied approaches and data sets. They all emphasise the difference between informal employment (oral labour contracts and unregistered self-employed) and employment in the informal sector inhabiting the enterprise characteristics.

The rates of informal employment have been steadily increasing since 2000, and informal employment made up almost 20% of all employed workers by 2009, in spite of the continuous economic growth and its consequent crisis (Gimpelson, Zudina, 2011). The main explanation is that a large part of informal employees still have their primary jobs in the formal sector, which provide them with stability of employment and income. Since the level of income is relatively low in the formal sector, many workers looked for secondary jobs, and three thirds of secondary employment were associated with informal contracts in the beginning of the 2000s (Varshavskaya, Donova, 2003). Their additional work efforts are better remunerated, although their working conditions could be better. Thus, we can see a dominant strategy of balancing work in the formal and informal sectors, which provides complementary benefits (Varshavskaya, Donova, 2003; Sinyavskaya, 2005; Karabchuk, 2006).

It is noteworthy that in spite of the deficiencies of informal employment, informal jobs are positively evaluated by the informal workers who would like to keep these jobs in the future (Barsukova, 2003; Latov, 2005). It means that the institutionalisation of informal practices and the deformalisation of formal employment have occurred in Russia. Gimpelson (2003) points out the impossibility of the informal sector elimination, due to the joint interests of the informal workers and their employers. An additional incentive to obtain informal employment derives from the possibility of tax evasion due to the ineffectiveness of the law enforcement (Gimpelson, 2002; Kubishyn, 2003; Sinyavskaya, 2005).

Most of the authors agree that the impact of informal employment is rather controversial, and the negative ef-

facts of informal employment have been also revealed. Employers of the informal workers feel free to ignore employment legislation norms, and this undermines the effectiveness of law enforcement in the country. It may lead to the deterioration of human capital and a lack of contribution to the social welfare system. Lower state control may lead to the criminalisation of the labour market.

On the other hand, informal employment has some positive effects. It reduces unemployment, increases the flexibility of labour relations, provides extra money for those who have several jobs and finally, raises an effective demand in the economy.

It is striking that informal employment was increasing during the years of both shock therapy and economic growth. It makes the Russian case even more peculiar, when just after the crisis of 2008, the employment in the informal sector declined by 2-3% in 2010 (Rosstat data). However, we need more time in order to determine whether or not this is the starting point of a new trend or just a short-term fluctuation.

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## Endnotes

1 Rosstat started to collect the official statistical data on informal employment in 1999.

2 Informal sector enterprises were defined by the 15th ICLS on the basis of the following criteria. They are private unincorporated enterprises (excluding quasi-corporations), i.e. enterprises owned by individuals or households that are not considered to be separate legal entities independent from their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s). Private unincorporated enterprises include unincorporated enterprises owned and operated by indi-

vidual household members or by several members of the same household, as well as unincorporated partnerships and co-operatives formed by members of different households, if they lack complete sets of accounts. All or at least some of the goods or services produced are meant for sale or barter, with the possible inclusion in the informal sector of households which produce domestic or personal services in employing paid domestic employees. 3) Their size in terms of employment is below a certain threshold to be determined according to national circumstances, and/or they are not registered under specific forms of national legislation (such as factories' or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws or regulations established by national legislative bodies as distinct from local regulations for issuing trade licenses or business permits), and/or their employees (if any) are not registered. They are engaged in non-agricultural activities, including secondary nonagricultural activities of enterprises in the agricultural sector

3 The employment situation of own-account workers and employers can hardly be separated from the type of enterprise that they own. The informal nature of their jobs derives from the characteristics of the enterprise.

4 Family workers usually do not have explicit, written contracts of employment, and usually their employment is not subject to labour legislation, social security regulations, collective agreements, etc.

5 The informal nature of their jobs follows directly from the characteristics of the cooperative of which they are members

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# Freelancers in Russia: Remote Work Patterns and E-Markets

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## Self-Employment in the New Economy

Since the beginning of industrialization, self-employment had been steadily declining and was commonly viewed as an obsolete form of economic organization, withering away under the pressure of capitalist accumulation and mass production. However, the last four decades have revealed the so-called “partial renaissance of self-employment” (OECD, 2000; Luber, Leicht, 2000, Arum, Müller, 2004). Apart from its increasing size, the nature and forms of self-employment in the post-industrial society had fundamentally changed. This ‘counter-evolution’ had structural, technological and cultural dimensions. The economy became more involved in the service sector and knowledge-intensive industries, whilst the traditional practices of small proprietors and craftsmen, involved in the family-embedded “moral economy”, continued to decline (Arum, Müller, 2004). At the same time, new forms of self-employment have been rising, including those inspired by the information revolution (Ruiz, Walling, 2005).

The overall rhetoric on self-employment has also substantially changed. Today self-employment is treated not as a facet of the old-fashioned petty bourgeoisie but rather can be viewed either as a part of a marginalized precarious workforce or as successful solo entrepreneurs. The most optimistic scenarios proclaim the devolution of large corporations, the decay of permanent employment and the rise of independent contracting. They criticize organizational bureaucracy, glorify the “free agents” and new types of “portfolio” or “boundaryless careers” (Handy, 1989; Arthur, Rousseau, 1996; Pink, 2001, Malone, 2004). An ideological shift to neoliberalism also promotes self-reliance, enterprising self and marketization of talent (Peters, 1999).

In 1998 Thomas W. Malone and Robert Laubacher illustrated/discussed the possibilities of “e-lance economy” provided by the Internet. They argued that:

*“The fundamental unit of such an economy is not the corporation but the individual. Tasks aren’t assigned and controlled through a stable chain of management but rather are carried out autonomously by independent contractors. These electronically connected freelancers (e-lancers) join together into fluid and temporary networks to produce and sell goods and services. When the job is done – after a day, a month, a year – the network dissolves, and its members become independent agents again, circulating through the economy, seeking the next assignment” (Malone, Laubacher, 1998: 3).*

The ideal model of electronic freelancing assumes that all stages of the business process are done remotely via the Internet. These include finding clients, communicating with them, negotiating contracts, transmitting final results and getting paid. The authors reflected on the infrastructure that would facilitate the new business model.

A year later the first online marketplace for freelance services was established. It was a major landmark in the institutionalization of electronic self-employment. The founders of *Elance.com* confessed that they were inspired by Malone and Laubacher’s vision. Today there are numerous websites where freelancers can offer their services and customers post projects (jobs) for which independent professionals can bid. Not only individuals and small enterprises but also large corporations use online marketplaces to outsource required skills. The number of global talent market participants has run into six figures. For instance, *Freelancer.com* reports having about 3 million registered users from 234 countries.

**Table 1:** Leading online marketplaces for freelancers

	Year of foundation	Working language	Registered users
Freelancer.com	2004	Eng.	3,000,000
Desk.com	2003	Eng.	1,500,000
Guru.com	2000	Eng.	1,000,000
Free-lance.ru	2005	Rus.	1,000,000
Elance.com	1999	Eng.	700,000
Worker.com	2001	Eng.	500,000

## The Russian story

Electronic self-employment is a very new phenomenon in Russia due to historical reasons and as a result of the information and communication technology (ICT) lag. In contrast to some other former socialist countries (e.g. Hungary, Poland), that permitted a limited form of small entrepreneurial activity, in the Soviet Union independent contracting (as well as entrepreneurship in general) was completely illegal (Szelényi, 1988; Róbert, Bukodi, 2000, Smallbone, Welter, 2001.). Even moonlighting (i.e. having a second job) was largely restricted. All people were supposed to work for state-owned enterprises and not independently. It is well known that the famous Soviet poet Joseph Brodsky (a future Nobel Prize winner) was charged with social parasitism in a 1964 trial for avoiding his duty to work "for the good of the motherland". As a result, there remained only tiny niches for moonlighting, which was entirely informal. Working on individual land plots predominantly for providing a means of subsistence was a noticeable exception.

For these reasons Russia could not have a strong and long-lasting freelance tradition. The self-employment rates are extremely low: own account workers without employees constituted 5.8% of the labour force and all self-employed (including employers and contributing family workers) – 7.3% in 2008. In the European Union the corresponding figures are two times higher, producing 10.5% and 16.9%, and in developing countries they are even higher (ILO; Pedersini, Coletto, 2009: 8). The

overall entrepreneurial spirit amongst the Russian population is still fairly weak (Chepurenko, 2010).

There is also some lag in the development of information and communication technologies. At the turn of the new millennium, when global online-marketplaces for freelancers had already come into service, only about 2% of the Russian population had access to the Internet. Now with more than 60 million users, Russia is one of the largest Internet markets in Europe. The total audience of the Russian-speaking Internet (*RuNet*) reaches approximately 80 million, including people from the former Soviet republics and other countries. However, the Internet penetration rate in Russia is still rather low – about 43%. It is only half as high in the most advanced information societies. According to the Russia Longitudinal Monitoring Survey (RLMS-HSE) only 23% of the labour force use Internet for their work either in the workplace or at home.

Whilst some attempts to create a mediating online-infrastructure for remote work have already been piloted, the first really successful project of this kind *Free-lance.ru* was launched in 2005. Today, with about one million registered users *Free-lance.ru* is not only the largest freelance marketplace on the RuNet, but in Europe and is now one of the largest in the world.

Certainly the figures on website users should be treated with caution. They indicate the overall interest in electronic self-employment rather than the exact number of market participants at any particular time. But in any case, the amount of Russians who try to work on their own via the Internet is growing, and this growth is relatively fast.

At the same time, our knowledge of this expanding group of workers is surprisingly limited. We need to know their socio-demographic status, to find out their work values and attitudes, to see if they are pulled or pushed towards self-employment, and discover how they manage to survive in the market. These are the issues that have been covered in our research project.

## Research agenda and data sources

In 2007 we started a long-term research project devoted to the phenomenon of emerging electronic self-employment in the information society. The project was

funded by the Academic Foundation of The Higher School of Economics in Moscow.

We define electronic freelancers as self-employed professionals, who work remotely via the Internet. It is important to mention that they provide professional services and do not produce material goods or resell them. They do most of their work by themselves and do not hire wage labour. They have a very strong identity and call themselves freelancers.

Since 2007 we have collected a great bulk of empirical data, both qualitative and quantitative, observing the development of online-marketplaces, and explored their structure and content. We conducted in-depth interviews with several dozen Russian freelancers and their clients, as well as three online standardized surveys at the largest online-marketplace *Free-lance.ru*.

The core of our data was collected in December 2008 and March 2011 during two waves of the Russian Freelance Survey (RFS) that brought more than 10,000 usable responses each, making RFS one of the largest freelance surveys in the world in terms of response numbers. Additionally, in July 2010 we surveyed 1,275 clients (both firms and private individuals) who use such freelance services. Using our quantitative data, we were able to devaluate some of the speculative claims about freelancers and enlarge our understanding of the group as compared to the qualitative narrative studies (Barley, Kunda, 2004).

An online survey at a freelance marketplace seems to be the most appropriate method for collecting empirical data about our research subjects. Due to the relatively small size of the group in Russia, self-employed professionals working via the Internet hardly ever fell into any nation-wide survey's samples.

Online surveys allowed us to get a large number of respondents within a short space of time and at minimal cost. The RFS questionnaire consists of about 50 questions and involves a wide range of work and life topics, including socio-demographics, professional and employment profiles, work values and motivation, income and well-being, satisfaction and work-life balance, self-management and relationships with clients. Table 2 shows the number of respondents in various subsamples.

**Table 2:** Russian Freelance Survey, number of respondents (2008 / 2011) see appendix.

Many respondents just opened the survey webpage but did not fill out any data. From overall nonblank responses we excluded those with poor data: scant (less than 30% of the questionnaire answered), careless, and misleading.

Then we divided those respondents into three groups of practicing, former and future (potential) freelancers. We will consider only practicing freelancers in this paper. From practicing freelancers we also exclude beginners, who seek freelance jobs but have not yet implemented any projects so far, and those who have been freelancing for a long time but were not active in the market during the past year. Thus, we get a category of 'active freelancers', who became the main subject of our study. Some results from the RFS-2011 data have been presented below. For comparisons we will use the data from the Russia Longitudinal Monitoring Survey of the Higher School of Economics (RLMS-HSE, 2010) which is based upon a nationwide sample of the Russian population.

### Self-employed professionals in Russia: background and profile

*Country of origin.* The e-market for freelance services on the RuNet is truly international. Russian-speaking freelancers from 34 countries took part in our survey. More than two-thirds of the respondents (69%) represent Russia, and almost all the rest are from the former Soviet Union republics (Ukraine – 21%, Belarus – 3.0%, Kazakhstan – 1.5%, Moldova – 1.5%, the Central Asian countries – 1.1%, the Baltic States – 1%). Freelancers from other countries make up only 1% of the respondents. A quarter of Russian citizens live in Moscow and about 10% in St. Petersburg.

*Gender.* Among active freelancers 61% are male and 39% are female. The corresponding RLMS-HSE figures for the Russian working population are 48% and 52%. Males are clearly overrepresented among freelance workers.

*Age.* Russian freelancers tend to be very young. About 70% are under the age of 30 and only 10% are older than 40. The corresponding RLMS-HSE figures for the Russian workers are 28% and 46%. Thus, we are dealing with the new generation of workers, who are less

restricted by the Soviet legacy and are more advanced users of information technology.

*Education.* Freelancers are often very well educated. 83% of them have completed or uncompleted university education in comparison to 30% of all Russian workers. One out of ten freelancers has two university degrees, an MBA or a doctoral degree.

*Employment status.* Following Charles Handy's concept of portfolio career, we take into account various paid and unpaid activities that altogether constitute daily routine (Handy, 1991). We believe that this approach better describes how freelancers balance their work and life activities. The genuine freelancers, for whom self-employment is their full-time activity and the only income source, account for 29% of our sample. Most of the respondents have a regular job besides freelancing (41%), and some people manage their own business with hired employees (8%). Freelancing is also prevalent among students (14%) and women, who have to look after small children (7%).

*Skills.* The prerequisite for remote work is that results must be produced in a digital form to be transmitted via the Internet. Therefore, the scope of professional skills on e-markets is relatively limited. The main areas of expertise are: websites (29%), computer programming (20%), graphic design and creative arts (38%), writing and editing (28%), translating (12%), audio and video (10%), photography (5%), advertising, marketing, consulting (5%), and engineering (5%). We can observe that freelancers are often engaged in "creative industries" and, to coin Richard Florida's term, represent the so-called "creative class" (Florida, 2002). It should be noted that for freelancers the Internet is not only a new communication tool, but also the object of their work, which is largely associated with creating and maintaining websites. In this respect, the prospects for the future growth of the e-lance economy are promising.

*Well-being.* On average, freelancers earn more than the Russian workers, although revenues from self-employment tend to be very unstable and volatile. According to official statistics, in 2010 approximately 77% of Russian workers earned less than 820 USD a month, compared to only 55% of freelancers. This picture does not change much when we compare our respondents to a group of Russian hired workers, using the Internet at the workplace (Shevchuk, Strebkov, 2011).

## Being a Freelancer: work values and motivation

When discussing work values and the motivation of freelancers, we will consider three points. Firstly, there is a cultural shift in the advanced industrial societies from materialism to post-materialism; from giving top priority to physical sustenance and safety to prioritizing the values of individual autonomy, self-realization and self-expression (Inglehart, 1990; 1997). In terms of working behaviour, people "place less emphasis on high salary and job security than on working with people they like, or doing interesting work" (Inglehart, 1990: 56).

Secondly, as some enthusiastic promoters of independent employment claim, "free agents" have rather distinct motivational profile when compared to the "organizational man" (Whyte, 1956). Freelancers do not accept the rules of the game imposed by bureaucratic authorities and corporate culture, choosing to develop their own subjective criteria of career success and work-life balance. The desire to be one's own boss appears to be propelled by the above-mentioned values of freedom and self-realization, accompanied by the ethic of self-reliance (Handy, 1989; Pink, 2001).

Thirdly, the need for a new type of worker has been on the socio-economic and political agenda in Russia since the beginning of the market reforms in early 1990s. Although the work values of Russian workers have undergone significant changes in the post-soviet period, they still reflect some negative trends. Most people expect good pay and job security from their employers and the state, but only a small share of them are ready to work hard, have personal responsibility and take the initiative. The post-materialist values of proactive self-realization are rather marginal for the consciousness of Russian workers (Magun, 2006).

In order to identify the most important aspects of work for freelancers, we used a standard question from the "World Values Survey" to compare our results with nationwide representative data (Magun, 2006). Our data revealed that freelancers are less prone to traditional forms of work behaviour.

First of all, freelancers express less materialistic inclinations and more creative values. Good pay is a high priority for almost every Russian worker (96%) compared to just 80% for self-employed professionals. Freelancers

tend to prefer interesting and creative jobs (73%) and seek out opportunities to acquire new knowledge and skills (66%).

Secondly, freelancers possess much more enterprising spirit than Russian workers in general. Three quarters of Russian workers are looking for "good job security" while this is appreciated only by one third of freelancers. At the same time, self-employed professionals are much more likely to demonstrate a need for achievement (59%) and initiative (41%). It is no surprise that 42% of them are likely to go into entrepreneurship within the next five years and create their own business with hired employees. Usually freelancers start small firms in area of their expertise, such as software companies, design studios or advertising agencies.

Thirdly, freelancers do not aim at minimizing their work efforts, which is a very common tendency amongst Russian workers in general (Magun, 2006). They do not avoid pressure at work and do not look for longer vacation time. Compared to freelancers, four times as many Russian workers would like to take longer vacations. All in all, freelancers are indeed workaholics. On average they work 52 hours per week, whereas the average Russian worker totals just 43 hours. Every third freelancer reports that he has not got a single day-off in the week.

When asked about the advantages of self-employment, freelancers point to flexible schedule (79%), working at home (65%), opportunities to choose interesting projects (56%) and personal responsibility (50%). One third of freelancers put a high value on freedom from corporate regulations, authorities and control.

One of the most intriguing issues is how people become freelancers. The entry into self-employment is normally discussed in terms of "pull" and "push" factors (Mallon, 1998; Williams, 2008; Rona-Tas, Akos/Sagi, Matild, 2005; Dawson et al., 2009; Bosma, Levie, 2010). In Russia as well as in many developing countries, self-employment has a lot to do with bad jobs and surviving. But the vision of self-employment as an entirely necessity-based activity is not true in the case of freelancers.

A large part of our respondents started freelancing because they required extra earnings (42%), whilst some others were fired (11%) or were obliged to look after small children (8%). The share of freelancers reporting exclusively these push factors totals around 30%. At the

same time, 37% of freelancers are driven mainly by pull factors. What used to be their hobby became a job (36%); they strived for a new professional experience (18%), did not want to be an employee anymore (17%) or even had always wanted to become a freelancer (13%). For them to become an independent contractor is largely a matter of personal decision. The rest of our respondents had mixed incentives, combining push and pull factors (Shevchuk, Strebkov, 2011).

Generally, freelancers seem to be more content than others. 58% of freelancers are largely satisfied with their lives in comparison to 47% of hired employees. The share of dissatisfied people among freelancers is two-fold less than among employees (13% vs. 27%). In this context, it is not surprising at all that only 3% of our respondents consider building up a regular employee career within the next five years. Our results agree nicely with the other cross-national studies, that documented the higher self-reported satisfaction among self-employed in many countries (Blanchflower, Oswald, 1998; OECD, 2000; Blanchflower, 2004; Benz, Fray, 2008).

### Freelance e-market: informality, opportunism, and trust

Self-employment in contemporary Russia is largely informal. Many agents have no proper legal status, do not conclude written contracts and avoid taxation (Radaev, 2002). The freelance market is not an exception.

Only one out of ten market participants concludes written contracts. Significantly, the persistent level of informality was observed in all three of our 2008-2011 standardized surveys; approximately the same share of freelancers as well as their clients relied upon informal agreements. Small-scale economic activity and an undeveloped legal culture in Russia do not create strong incentives for legalization. Besides, Russian legislators still have not provided a legal frame for telework. It means that the e-market for freelance services is doomed to informality.

Not surprisingly, market participants encounter a high level of opportunistic behaviour. More than 70% of freelancers and clients have reported on cases where the other party broke down their agreements in some way during the last year. In many cases it creates severe problems, including financial losses: 45% of freelancers and

51% of their clients have had such an experience. Distant communications only make matters worse, and a contracting party may suddenly disappear into cyberspace. Consequently, 40% of freelancers and 30% of their clients who had conflicts caused by opportunistic behaviour failed to resolve these conflicts.

Formal enforcement in this market is barely feasible. Only 1% of market participants took legal action against opportunists and reached a success. Online marketplaces make efforts to reduce the moral hazards of opportunism by establishing basic institutional arrangements. Leading websites provide "safe pay" (escrow systems), ensuring that contractual obligations are fulfilled by both parties, and perform arbitration in disputes. However, on the RuNet, these institutions are only emerging. Not more than 5% of our respondents, both freelancers and their clients, assert that a website's authorities have helped them to defend their rights.

How can one survive in such a market, where property rights cannot be protected by formal institutions? As in other similar cases, people rely heavily upon social networks. Facing social uncertainty and a deficit of generalized trust, people seek to stimulate commitment and personalized trust (Yamagishi, Toshio/Yamagishi Midory, 1994; Radaev, 2004). Our data reveals that freelancers most likely get jobs not from the anonymous market but from the people they know in some way; regular customers (68%), referrals from former clients (51%), and friends and acquaintances (40%). Moreover, one third of freelancers relies entirely on his/her social capital, i. e. finding jobs exclusively through established social ties.

Although in Russia the process of obtaining new jobs in the traditional labour market is also very personalized (Yakubovich, Kozina, 2000; Gerber, Mayorova, 2010), in the case of the electronic market we encounter a certain paradox. Almost all freelancers (97%) are registered users of some online marketplace, but only half of them actually obtain clients via these websites. The very idea of an online-marketplace is to bring together spatially dispersed buyers and sellers of remote services. Theoretically, this online-infrastructure is supposed to facilitate arm's-length ties and favour the global spot-market. However, the Russian-speaking e-market is far from the ideal neoclassical model of anonymous buyers and sellers and is largely shaped by social networks. The Russian freelancer is not an atomized global actor surfing the Internet for some jobs. His/her actions are embedded in

interpersonal social networks, more akin to medieval craftsmen.

This reliance on social capital in the job search decreases the risk of financial losses resulting from opportunistic behaviour, reduces the rate of unresolved conflicts with the clients, raises an average project price and consequently brings more overall revenues (Shevchuk, Strebkov, 2009).

## Conclusion

Electronic freelancing is a new model of work in Russia. It stands out from more traditional forms of self-employment and other non-standard working arrangements, which predominantly belong to "bad" jobs with primitive technologies and low wages (Gimpelson, Kapelyushnikov, 2006). Despite the contingent nature of electronic freelancing we should not neglect this phenomenon, or consider it to be marginal and peripheral.

Electronic freelancers in Russia are young individuals with a higher enterprising spirit and human capital, offering creative and knowledge-intensive services. Although these self-employed professionals work longer hours than regular employees and often operate under pressure, they have a higher income, enjoy autonomy at work and are more satisfied with their lives. Electronic freelancers represent a part of the "new middle class" and the vanguard of the workforce in terms of the nature of work, ICT-competence and motivation.

Electronic freelancers play an important role in the development of the Internet, e-business, and innovative entrepreneurship. Remote work patterns stimulate the integration of Russian professionals into global talent markets as well as attracting a highly skilled labour force from abroad to the Russian economy.

The high level of informality and opportunism holds back the development of Russian-speaking e-lance market. Clearly, the leading websites will act as market-makers to reinforce institutional and generalized trust. Hopefully, a proper legal framework for electronic business relations and telework will be created in the near future.

Electronic freelancers comprise a very narrow and highly specific category of the workforce, possessing the high human capital resources (i. e. professional, organization-

al, communicative skills) and taking advantage of the global Internet era while sustaining their work autonomy. Whilst only a single model, it is still an important facet of the kaleidoscopic world of contemporary working arrangements.

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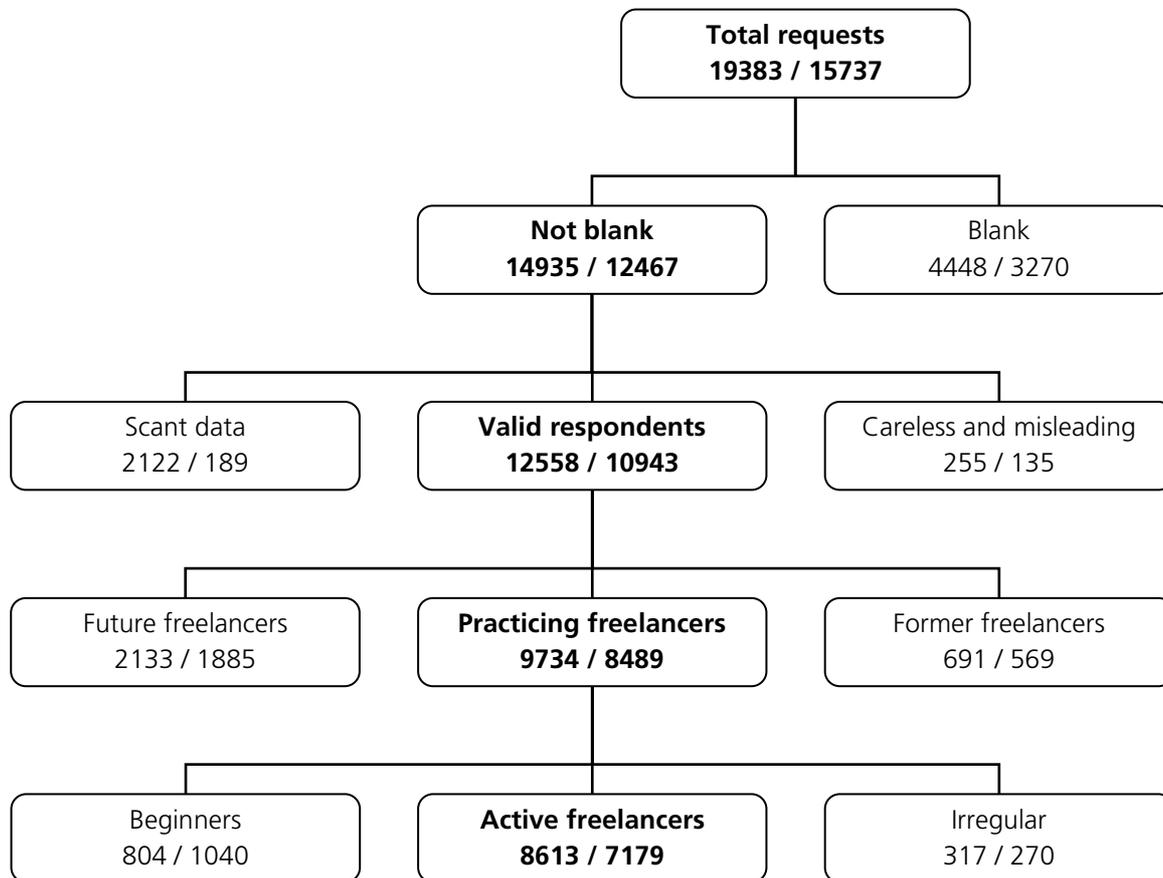
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Appendix



**Table 2:** Russian Freelance Survey, number of respondents (2008/2011)

# Rural Informal Economy in Post-Soviet Russia

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In the USSR, throughout almost its entire existence, it was forbidden to research the area of the informal economy. It was considered to be a remnant of the “petty bourgeois past” and its semi-legal activity. The significance of the informal economy for soviet society and, in particular, for rural Russia, was recognized mostly in the later years of perestroika, beginning in 1989. Both the adoption of the law on cooperation (1988), together with growing market relations managed to promote the rehabilitation, legitimization and, above all, the spread of certain phenomena of the informal economy, such as unregistered family employment, secondary employment, the widening of inter-familial exchanges and small cross-border trade.

## From the UK to Russia

A new research programme for studying the rural informal economy began with the article *Out-of-System Forms of the Economy* published by the British sociologist Teodor Shanin (Shanin, 1990). It presented a rationale for this kind of research.

Shanin also launched a long-term sociological British-Russian research project, named *The Social Structure of Russian countryside*. Thirty sociologists were involved, using the anthropological methods of long-term participant observation in 12 regions and 36 villages of the former USSR. The aim of that research was to study the real economy of rural Russia, applying the methods of quantitative and qualitative analysis. The main data was collected from the local rural statistics, peasants’ narratives and a detailed analysis of their family budgets. It was backed up by the long-term observations over the institutional structure of collective farms (kolkhozes and sovkhoses) and the functions of the local authorities in the villages. All in all, abundant and diverse empirical data confirmed the crucial role of the informal economy in the survival of the rural households in Russia (Krestianovedeniye, 1996).

In its second stage in the mid-1990s, Shanin’s research team, including Russian scholars Olga Fadeeva, Evgeny Kovalev, Alexander Nikulin, Ilya Shteinberg, Valery Vinogradsky and Olga Vinogradskaya looked for theoretical explanations for their findings. They produced a series of analytical typologies of rural family households and their informal relations with the collective farms, and analyzed the patron-client relationships between households and the local authorities of rural Russia. The results of these studies were summarized in the volume *The Informal Economy: Russia and the World* (Shanin, 1999).

In the third stage, the project *The Informal Economy of Urban and Rural Households: Restructuring of Interfamily Economic Networks* was carried out jointly by Teodor Shanin’s team of rural sociologists (Fadeeva, Nikulin, Vinogradsky, 2002) and Vadim Radaev’s team of economic sociologists (Barsukova, 2005). In the course of this study, the functions of those informal networks which facilitate the inter-familial mutual exchanges were explored in an urban-rural comparative perspective (Shteinberg, 2009).

In the fourth stage, research was internationalized when the Centre for Peasant Studies joined the large European research project *Kinships and Social Security* (KASS, 2005). One rural community and one urban district were chosen for anthropological research in each of the following eight European countries: Sweden, France, Germany, Austria, Italy, Slovenia, Poland, and Russia. Anthropologists and sociologists investigated kinship networks in the urban and rural environment of each country. One of the paradoxical results of this research was that in the Moscow district, the level of kinship solidarity turned out to be the lowest, in comparison with the urban districts of the other seven countries. At the same time, the Russian village demonstrated the highest scale and scope of kinship networks in comparison with seven villages in the other countries. Thus, regarding the structure of kinship networks, the distance between urban and rural areas was most significant in Russia.

## From the Centre for Peasant Studies to the Centre for Agrarian Studies

In 2009, the Centre for Peasant Studies was turned into the Centre for Agrarian Studies of the Russian Academy of Economy and Public Service, under the auspices of the President of the Russian Federation. This new centre continued the study of the rural informal economy (Nikulin, 2003). It focused on the increasing penetration of large Russian and global companies into the Russian agricultural sector. This large-scale invasion resulted in the replacement of the old-style *kolkhozes* and *sovkhozes* with new, larger agrarian corporations which came to be defined as 'oligar-khozes' (Nikulin, 2010). Mergers of the local authorities and businesses in the hoarding of land plots was accompanied by predatory raids which meant that corruption became the main subject of research for the Centre for Agrarian Studies (Krestianovedeniye, 2011).

## From St. Petersburg to Irkutsk

At the turn of the new millennium, the study of the rural informal economy began to be developed by some other regional research centres in Russia. The Centre for Independent Sociological Research in St.-Petersburg headed by Victor Voronkov, and the Irkutsk Centre for Independent Sociological Research and Education headed by Mikhail Rozhansky were two of the main centres involved with this study.

The Centre for Independent Sociological Research carried out more than 30 research projects on ethnicity and migration. The issues of rural informal economy were incorporated into the study of the economic activity of rural migrants and their diasporas in the urban areas of Russia. A number of important case studies on the informal economy of rural migrants and their diasporas in urban areas were presented.

The Irkutsk Centre for Independent Sociological Research and Education carried out a series of research projects including *Depressed villages: inherited poverty?* and *Rural communities in the Baikal region: the strategies of developing natural resources within the framework of the local government reform*. These projects revealed the significance of the informal economy for the survival of the rural households in Siberia.

Finally, in 2005, St-Petersburg and the Irkutsk Centres joined forces and carried out a joint project on the informal

economy in forestry. It described routine business practices of illegal wood cutting, the informal organization of enterprises in the forest industry, and the shadow channels of sales in Russia and China.

## The contribution of Western Scholars

Beside the remarkable contribution made by Teodor Shanin into the study of the rural informal economy, some other scholars further contributed to the study of the informal economy. The books of the American scholar James C. Scott such as *The Moral Economy of the Peasant*, *The Weapon of the Weak*, and *Seeing Like a State* (Scott, 1974, 1985, 1998) enjoyed immense popularity among the Russian researchers of the rural informal economy, though James Scott himself has never carried out any field studies in rural Russia.

Since the 1990s, a number of Western scholars have conducted long-term field studies of the rural informal ties in Russia. First of all, we ought to mention the works of British anthropologist Caroline Humphrey, especially her book *Marx Went Away – but Karl Stayed Behind* (Humphrey, 1998), in which she explores in detail the evolution of soviet and post-soviet informal ties, using the examples of the rural area in Buryatia (Eastern Siberia). The author came to the conclusion that despite partial transformations, informal practices and relationships in the post-soviet rural economy have proven to be very sustainable.

British rural geographer Judith Pallott and Russian geographer Tatiana Nefedova published an extremely interesting book named *Russia's Unknown Agriculture* (Nefedova, Pallot, 2007). It was based on the results of field studies devoted to the survival strategies of rural households, including activity in the informal economy. This study presents a detailed description of specific features of the informal rural economy.

Some original conclusions regarding the informal economy in rural areas were made by American anthropologist Nancy Rees in her article *Potato Ontology: Surviving Post-socialism in Russia* (Rees, 2009). The author revealed a stable composition of cultural and economic factors behind the networks of informal support in family production, distribution and consumption in Russia.

The extremely significant research carried out by German Peter Lindner ought not to be overlooked, a geographer

who studied the transformation of the *kolkhoz* economy of rural communities during the post-soviet period. The results of his research were summarized in the book *The Kolkhoz Archipelago* (Lindner, 2008). Combining new theoretical approaches of social geography and the results of various field studies in rural areas of Russia, Lindner demonstrated both the formal and informal mechanisms of disintegration of the soviet *kolkhoz* 'continent' into the dispersed post-soviet *kolkhoz* 'archipelago'.

A significant contribution to our understanding of the informal mechanisms of the sustainability of large collective farms in post-soviet Russia was made by Dutch anthropologist Oane Visser in his PhD dissertation *Crucial connections: the persistence of large-farms enterprises in Russia* (Visser, 2008). Using the data of various field studies of large agrarian farms carried out in Northern and Southern rural areas of Russia and comparing it with the data of official statistics, Visser revealed a constellation of factors, including informal relationships of trust in agrarian management, which backed up the activity of these large farming enterprises.

Finally, American political scientist Jessica Allina-Pisano carried out a comparative study of the informal foundations of agrarian reforms in Russia and Ukraine, which were illustrated in her book *The Post-Soviet Potemkin Village: Politics and Property Rights in the Black Earth* (Allina-Pisano, 2008). Confronting the outcomes of Russian and Ukrainian agrarian reforms, Pisano concludes that in spite of many formal judicial differences, both reforms are very similar with regard to the informal mechanisms of the privatization of soviet rural property.

A remarkable integration of Russian and Western research on the informal economy in Russia has been observed in recent years. The international conference *Contemporary Land-Grabbing: Russia and the World* which was arranged in Moscow in 2011 and a recent Helsinki seminar of sociologists from Scandinavia and Russia, devoted to the studies of rural Russia serve as prime examples of such cooperation.

## Economic Sociology and the rural informal economy

Many Russian and international scholars have been involved in the research of the rural informal economy in Russia over the last two decades. Some of their most important findings were integrated into the body of Russian

economic sociology by Vadim Radaev and Svetlana Barsukova, producing many influential textbooks (Radaev, 2005; Barsukova, 2009). The publication of the most important papers on informal economy in general, and on the rural informal economy in particular in the e-journal "*Economic Sociology*", created a fairly vivid picture of this developing field in the broader context of studies in economic sociology.

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# Book Reviews

**Book:** Mary C. Brinton, 2011: *Lost In Transition. Youth, Work, and Instability in Postindustrial Japan*. Cambridge: Cambridge University Press.

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In the comparative welfare state and varieties of capitalism literatures, Japan has played a curious role. Its rapid post-war growth entitled it to membership in the OECD and inclusion in purportedly widely-applicable theories about labor, industry, the (welfare) state and interlinkages between these elements that were assumed to constitute a "normal" developed market economy. Some elements of Japanese capitalism endured as distinctive features in many different middle-range theories and their application. The transition from school to work that Mary Brinton writes about with such depth of knowledge is one of these distinctive features.

Brinton focuses on the cultural, social, and human capital carried by organizations rather than individuals. The transition to work is highly structured and involves taken-for-granted understandings of the role of the student, school, and prospective employer. These understandings specifically emphasize the role of the school as a broker in placing students. The central question of the book becomes whether this brokering role has been made obsolete by the end of the labor shortages of the high-growth era and what the school-to-work transition looks like in post-industrial Japan. The surprising answer that Brinton provides is that the institutionalized roles of schools in brokering employment offers continues to serve students in vocational secondary schools well, but it is students at the middling to lower-ranked academic high schools that are turning into the "lost generation" that academics, commentators and policy-makers are increasingly concerned about in Japan.

The book makes a great virtue out of the fact that it resulted from a multi-year process of different research projects that were somewhat interwoven around the central theme of the school-to-work transition from the mid-1990s until the late 2000s. The evidence presented is

based on a multi-method approach that is not only convincing in providing readers a glimpse at similar empirical questions from different perspectives, but also in offering a portrayal of the contemporary situation that seems as complete as it could be in just under 200 pages.

The opening chapter sets the stage by discussing the Japanese discourse on the "lost generations" that resulted from several years of a very low intake of new employees into the most desirable and stable jobs in the Japanese economy. Because several cohorts of the mid-1990s faced general hiring freezes at their single point of entry to stable employment, these cohorts are moving through the lifecourse with a significant bulge of unemployment or underemployment, lower job security, fewer benefits and all the social, psychological, and economic challenges that attend the status of being a "lost generation".

The second chapter discusses the historical roots and institutionalization of the school-to-work transition as it emerged to address severe labor shortages during Japan's high-growth period. Chapter 3 focuses on the extent to which not just the transition to work, but the entire employment trajectory as it is experienced by men in Japan revolves around attachment to a specific context, or *ba*. The following chapters continue this focus on the institutional context of the transition to work and present data from a variety of angles including an extended argument for why participants place such great trust in the institutionalized employment system. Chapter 6 as the final empirical chapter presents the life histories of three young men as they have experienced their membership in the lost generation. The conclusion then refocuses insights about the school-to-work transition on the growing awareness of socio-economic inequality in Japan.

The great merit of Brinton's model is her ability to adapt prominent, predominantly North American theoretical concepts from the sociology of work and education to the particular context of Japanese employment relations. For example, she repeatedly returns to questions raised by Mark Granovetter's strength of weak ties argument and examines it in the Japanese context.

As I progressed (easily, for it is well-written) through the book, my anticipation continued to build as to what other

interesting data Brinton would be able to analyze. Data sources stretch from the census level to illustrate the portrayal of the “lost generation”, to smaller scale surveys that Brinton conducted jointly with some of the most prominent contemporary Japanese sociologists. Because her data collection and conceptualization of her analyses were interwoven with the social scientific discourse in Japan, and perhaps also because this book was originally published in Japanese and thus aimed to connect with this discourse more explicitly than many works, Brinton does an exceptional job at bridging scientific debates between the North American and Japanese contexts.

Brinton is not shy about “revealing” the sometimes haphazard routes by which data presented themselves to her. The story she recounts on pp. 55-56 of how she happened to come into possession of the entire trove of job offers in a local employment office was not only a light-hearted but telling insight into the difficulties of obtaining data. This will be a welcome pointer to some of the graduate students who will undoubtedly read this book that good things will come to researchers who engage a topic with in-depth fieldwork in the actual context of their chosen topic.

I found some aspects of Brinton’s argument less convincing than the overall thrust and structure of the presentation. For example, I am not sure that we need yet another version of what seems like a definition of “institution” in another context, namely Brinton’s use of the term “ba”. While this is a term with many complex connotations that I also encounter in my research on supplementary education in Japan, something as simple as “institutional context” would have served Brinton well. The life histories presented in Chapter 6 do round out the mix of methods employed by including in-depth interviews, but they seem to add very little to the overall argument.

I will be relying on the central empirical chapters of this book in an upcoming seminar on economic and social change to examine education(al policy) as a crucible of the organization of work and society in the Asia Pacific myself and recommend this book not only to readers interested in the specifics of the Japanese case, but to the broader audience of scholars working on employment systems and the welfare state. Brinton will provide you with an engaging overview of the Japanese employment system, but also many insights into the operation of social institutions and individuals’ choices in the context of this system.

**Book:** Philippe Steiner / François Vatin (eds.), 2009: *Traité de sociologie économique*. Paris : PUF.

**Reviewer:** Jacques-Olivier Charron, CNAM (Conservatoire National des Arts et Métiers), [jcharron@magic.fr](mailto:jcharron@magic.fr)

The first question you may ask about this book is: well, we’ve already got the Smelser & Swedberg’s edited 748 pages *Handbook of Economic Sociology*, so why should we read another one? In French, and 816 pages long? The short answer is: because, compared to the *Handbook*, it’s completely new and original. Now, let’s try for a more elaborate one.

The *Traité* is indeed a little more French than the *Handbook* is American: among the 42 contributors of the 2005 edition of the *Handbook*, six had not obtained their PhD in an American university, whereas all the 21 contributors of the *Traité* have got it in a French university or grande école. More interestingly, six of them do not belong to the academic field of sociology (four are in economics, two in management). This illustrates an institutional peculiarity: in France, economic sociology is not always considered as just a part of sociology like, say, the sociology of work or the sociology of religion. The co-editors Philippe Steiner and François Vatin define economic sociology in their introduction as “the place of a fundamental questioning on institutions, representations and social behaviors in the modern society, dominated by the market”(p. 10). They also recall in their chapter on “Sociology and economics in France since 1945” that French economists have always took part in this questioning; clearly, the dividing line between the two disciplines is not the same as in the U.S., which makes for example Harrison White look like an economist (albeit an “heterodox” one) for a French reader.

This difference can also help to understand why this is not a handbook but a treatise. Whereas a handbook is primarily made for students, to provide them with what they need to know about a discipline that is already established and widely taught, a treatise is supposedly more formal and research-oriented. One of the remarkable features of the *Traité* is indeed the diversity of the theories exposed. Steiner and Vatin mention that four of them (namely regulationism, conventionalism, anti-utilitarianism, and the part of actor-network theory that uses the notion of performativity to study markets) had emerged in France in the 1980’s, before the American “new economic sociology”, mainly based on network analysis, had been really introduced in this country, which happened only in the 1990’s.

Each of these four theoretical frameworks is presented in depth in a chapter by leading authors (respectively: Robert Boyer, François Eymard-Duvernay, Alain Caillé, Fabian Muniesa and Michel Callon), but three other theoretical contributions (by Lucien Karpik on the economics of singularities, André Orléan on the economic sociology of money, Emmanuel Lazega on the cooperation between competitors) display other and/or newer perspectives. All of them clearly identify the way each theory contributes to economic sociology, illustrates it and supports it through a comprehensive set of references.

Among the other chapters

- three are clearly devoted to a specific topic: Frederic Lebaron (on the training of economists and its symbolic implications), Philippe Steiner (on organ transplantation), and Patrice Flichy (on how Internet became a market) present well-documented empirical studies.

- eight are review articles on various objects of economic sociology (management tools, economic calculation in everyday life, services to individuals, entrepreneurship, financial markets, uses of money, performance measurement at work, consumption as social practice).

The categorization of chapters we have established is not the one that is used in the book, that is divided in five parts (the Introduction and Chapter 1 set aside, these are: The economic fact as social fact, Economic representations, The social construction of markets, Competition as a social relation, The economy as ordinary practice), but ours simply seemed more logical and practical. Even this one, though, is not really clear-cut. For example, you'll find deep theoretical insights in Steiner's chapter, Godechot's one on financial markets clearly contrasts with the usual focus of social studies of finance on performativity by displaying a much wider array of theoretical and empirical approaches, and 14 of the 35 pages of the Muniesa & Callon's contribution are devoted to empirical studies.

Generally speaking, this edited book, which was and still is the first French one specifically devoted to economic sociology, presents a strikingly diverse, rich and stimulating approach of the field. If we get back to the 2005 edition of the *Handbook* we talked about at the beginning, we can remark none of the 7 theoretical approaches presented in the *Traité* is distinctively exposed in it. A significant part of the research reviewed or exposed in the other chapters was not mentioned in the *Handbook*.

If you read French, you probably already know the work of some of the contributors, but this book will give you a mind-opening view of economic sociology and may urge you to contribute to its renewal by giving you a set of tools and ideas designed for it. If you don't, you may exert some pressure on editors to get it translated. Let's just hope it won't take 15 years to read it in English, as it was the case for Luc Boltanski and Laurent Thevenot's masterpiece *On Justification*.

**Book:** Rainer Diaz-Bone, ed., 2011, *Soziologie der Konventionen: Grundlagen einer pragmatischen Anthropologie*. Campus: Frankfurt/Main.

**Reviewer:** Arne Dressler, Max Planck Institute for the Study of Societies, [dressler@mpifg.de](mailto:dressler@mpifg.de)

While economic sociologists have started to engage with conventions in recent years, the sociological enterprise at large still awaits their reception, at least outside of France. For the German-speaking audience this could change with a new book whose title translates into English as "Sociology of Conventions: Foundations of a Pragmatic Anthropology." Released in the prestigious Campus series "Theory and Society," the collection of essays by members and affiliates of the *Économie des Conventions* (EC) will surely catch attention.

Edited by Rainer Diaz-Bone, the volume consists of nine texts, originally published between 1993 and 2007 mainly in English but also adding a few which were previously available only in French. The book relies on a set of translations, which was first produced for an issue of the French-German online journal *Trivium*. These four essays can still be downloaded for free (<http://trivium.revues.org/3557>). But those who look for a more comprehensive overview of the development and some applications of EC's core ideas will appreciate the editor's decision to commission the translation of five additional essays into German for the book.

"Sociology of Conventions" comes with two claims: Not only has the EC achieved for a sociological analysis of the economy in France what the new economic sociology has done in the United States. It has also developed a distinct contribution to the theory of action and institutions. For both claims, the book offers extensive textual evidence. The second one is perhaps most unrecognized. It opens up

the reception of the work of and around Boltanski and Thévenot in Germany *beyond* the current interest in a sociology of everyday criticism, spearheaded by the heirs to the Frankfurt School. For economic sociology, the claim to a distinct social theory may mean a caveat not to assimilate too quickly conventions *merely* as another explanatory variable and simply squeeze them in somewhere between institutions, networks, and culture. The book does not advocate against such use. But the selection of texts demonstrates that exclusively taking such a route could miss the larger social theoretical offer of the EC.

Diaz-Bone's introduction rightfully cautions against the potential misunderstanding to equate conventions with customs or *ad hoc* agreements. The intellectual project of the EC aims at a quite different layer of collective existence. It is concerned with the exploration of variable forms of intersubjectivity and their link to action. This becomes most visible in the notion of "orders of worth," explored in the opening essay by Boltanski and Thévenot. Orders of worth link action with different forms of justice through the patterns of valuation they respectively imply. The authors start from the observation that social action can be criticized for the relative size it recognizes in persons and objects as well as their ways of relating to each other. Any such criticism, they argue, will necessarily be based on a different order of worth, which is thereby introduced into the situation as a competing principle of justice. Because the presence of multiple orders of worth undermines the shared qualifications of actors and objects, radical uncertainty ensues, which disrupts joint action. It can only be restituted by making the diverging definitions of the situation accord again. This is done by putting criticism and justifications to test.

The essay written by Nicolas Dodier goes beyond a discussion of this neo-pragmatist action model and makes clear why analysts should pay attention to conventions. The key challenge for actors in a situation, the argument goes, consists in the adjustment to each other. Dodier shows how giving accounts and ethnomethods can serve as coordination devices. But the coordination allowed by them is bound to the here and now and depends on the continuous and unending production of order each time anew. Conventions, by contrast, extend the scope of coordination in time and space because actions can rely on the legitimacy granted by conventions. Together with qualified objects present in a situation, conventions serve as anchors for action, which, in turn, allow the relaxation of assumptions regarding actors.

This point runs through almost all texts. Actors are boundedly rational, yet the usual sociological solution of socialization is rejected as being too inflexible. Hence, common knowledge among actors, simply presupposed by neoclassical economics, cannot be sufficiently explained by referring to the immersion into a social group. It is rather the very achievement that is brought about by conventions. For it to work, actors need to be endowed with interpretive skills. This is made most clear in a programmatic essay collectively authored by almost all the economists who launched the research program of the EC more than twenty years ago – the most lucid and comprehensive overview of the intellectual project of the EC in the book. According to the authors, conventions foreground what is pertinent and what is to be neglected. Thus, conventions can be seen as interpretive repertoires serving cognitive and evaluative functions *at the same time*.

At the latest here, sociologists will be reminded of institutions. But the early writings on conventions, Christian Bessy helpfully recounts in his essay, have shunned institutions because of a skepticism that they cannot, by themselves, secure coordination. Institutions, understood as rules, were seen as incomplete. To bridge the gap between a rule and its conditions of application, the interpretive effort by actors was emphasized. Conventions were suggested to come into play exactly at this point, either as backing up or weakening the validity of institutions. In examining current positions within the EC, Bessy notes divergent standpoints over the relation between rules and action and separates an explanatory pole from an interpretive one. He points out that they may not be fully incompatible but unfortunately does not describe in detail how this could exactly be conceived. In many ways, his contribution is the richest and most intricate text of the book. It pursues a much needed debate about the relation between conventions and institutions. However, it is symptomatic that even in Bessy's treatment new economic institutionalists and Durkheim still remain the only critical reference points before turning to philosophy for alternatives. As conventions are now debated much wider, it will be important that all existing institutionalist variants from the social sciences be included in the discussion.

Towards the end of the volume two additional chapters are included by Thévenot. They extend the horizontal plurality of orders of worth by a vertical plurality of regimes of engagement. The proposal can be seen as EC's latest contribution to action theory, intending to denaturalize action as a fixed form of human activity: Engagement results from

the way actors relate to their environment, particularly to objects. Regimes differ in generality regarding the information format they allow, the constitution of the actor, and the requirements to be fulfilled for coordinating with others. The research projects, which inspired the regimes of engagement and which are shortly described at the end of the chapters, sound highly interesting and should be given a closer look. They also testify to the thematic breath of empirical work that is undertaken within French sociology in the wake of the conventionalist movement. Here, more than a few gems may be found!

“Sociology of Conventions” is a timely book. Even if partially a challenging read, it will undoubtedly spur the reception of the EC in Germany. By assembling dispersed key statements of the EC movement between a book cover, it provides the chance for a deep and comparative reading. To what extent its claims should be adopted, can now stand to an informed, hopefully productive and empirically grounded debate.

# Ph.D. Projects in Economic Sociology

## Structural embeddedness and contractual relationships in Russian emerging markets

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Since the late 1980s, market exchange has moved into the center of sociological discussion breaking up the Parsons-Robbins pact of the 1930s via introducing the idea of social embeddedness of economic phenomena (Granovetter 1985; Granovetter 1990). This change breathed new life into economic sociology, which has inspired numerous studies focusing on the role of social structures in determining economic behavior and market outcomes (Fourcade 2007). But at the same time, it distracted researchers from the Hostile-Worlds problem, which implied separateness of economic and social spheres (Zelizer 2005) and has contributed so little to sociological understanding of the nature of market per se (Krippner 2001). Thus, one has to acknowledge that market exchange as a “black box” of economics has not been cracked yet with sociological tools.

One small step on the way to sociological progress is to put social embeddedness of economic phenomena at the core of empirical research. The presented thesis focuses on embedded exchange relationships being formed between retailers and their suppliers in emerging Russian markets during the 2000s. The study deals with so-called “standard markets” (Aspers 2010), which are often ignored by sociologists. Moreover, retailing has always been curiously peripheral in sociological literature, although “trade represents one of the few forms of interaction of first human communities” (Swedberg 1994: 256).

## Research design and empirical data

The 2000s saw an escalation of the conflict in retailer-supplier relationships in Russia. Continuous disputes among market actors provoked the state intervention into the most liberal economic sector. Thus, the new restrictive Trade Law had been enacted by the end of 2009. Debates

on this law demonstrated significant misunderstanding by legislators and experts of all complexities of the market exchange, which is not confined to bargaining over price and redistribution of added value in favor of more powerful actors. That misunderstanding was supported by some gaps in empirical knowledge regarding how Russian consumer markets really work.

The transformation in Russian retailing is supposed to be a manifestation of the global trends. The 20th century witnessed an increasing number of countries experiencing a trade revolution that resulted in fundamental economic changes. The most important outcome of that is a shift in market power from manufacturers to retailers (Hamilton, Petrovic 2011: 14) caused by enlarging retail enterprises and strengthening centralization of the latter’s management system. This power imbalance pushed participants of exchange relations toward developing mechanisms of bilateral control in order to construct symmetrical ties (Weitz, Jap 1995: 308). In sociology of modernity it is widely accepted that changes toward modernity are accompanied by shifts from communal relationships to associative ones based on self-interest and third-party enforcement, especially in economic spheres. However, today an increasing number of researchers have been concerned with a return tendency. Modern markets are considered to be “in the process of being tamed, regulated, and closed” (Arndt 1979: 69).

The paper deals with exchange relationships among chain stores and their suppliers. The research aim is threefold: 1) to describe key elements of the exchange relationship patterns formed in Russian emerging markets, 2) to reveal conditions contributing to their formation, and 3) to determine the influence of these patterns on formal outcomes and substantive contents of retailer-supplier relationships.

It is necessary to give some specifications. The study is confined to contractual relationships implying transaction planning and sanctions reinforced with guaranties from third parties (Macaulay 1963; Macneil 1980). Moreover, the research interest is aimed at structural embeddedness, which separates the social networks from dyad relations (Granovetter 1990).

Social embeddedness here is defined as a network of long-term relationships in which an observed firm is involved. In opposition to exclusivity, it attaches particular importance to duration as a key dimension of social embeddedness, implying that time period, during which an economic transaction lasts, serves as a main source for emergence of social structures and norms (Emerson 1976; Coleman 1990). This idea is rooted in the anthropological tradition which stresses the important role of time as a basis for formation of liabilities and trust in ceremonial exchange (Malinowsky 2005; Moss 2005; Sahlins 1974).

Additionally, the study follows the idea according to which various conditions of exchange are capable to generate social structures (Blau 2009). The conditions of exchange process fall into several groups: characteristics of business enterprises (organizational size, commodity markets, organizational age); characteristics of exchange relationships (business partner choice criteria, bargaining continuity, intensity of business communication, supply concentration); costs and investments for supporting ongoing relationships (joint infrastructure, help in problem solving, information exchange); power asymmetry (bargaining and structural dominancy); level of competition and number of business partners; and membership in formal and informal business coalitions.

It is also supposed as important to problematize the social and economic content of embedded exchange relationships. Are embedded interfirm ties considered to be less contentious and more cooperative? In what ways does the social embeddedness of economic relations influence reliability of contracts?

From the empirical perspective, the database includes quantitative and qualitative data from comparable studies<sup>1</sup> conducted in 2007 and 2010 years. Both studies surveyed relations between retailers and their suppliers in five Russian cities: Moscow, Saint-Petersburg, Yekaterinburg, Novosibirsk and Tyumen. Questionnaires were collected from managers of supplying companies and retail managers. In 2007 we surveyed 249 representatives of supplying companies and 252 retail representatives, and in 2010 257 and 255 representatives respectively. Both projects covered two sectors (food items and home appliances/electronics) which account for up to 50% of Russian retail turnover. Quantitative data were enriched by 30 in-depth interviews conducted in three cities: Moscow, Saint-Petersburg and Tyumen.

## Findings

The findings demonstrate that retailers and their suppliers are reluctant to exchange through short-term market ties and tend to build long-term relational patterns. The institution of exclusivity doesn't work here. Retailers and suppliers collaborate with a lot of partners simultaneously. In 2010, on average retail chains maintained relationships with 60% of their suppliers for more than five years; the same figure for supplying companies accounted for 63% of their retailers.

In the observed markets, suppliers hold comparably strong market positions in terms of structural power, while retailers dominate in terms of bargaining. Suppliers are more likely to establish embedded relationships than retailers, which are more inclined to switch their business partners and more dependent on local market structures and institutional schemes of exchange. Therefore, it is possible to conclude that the more powerful party tends to have a transactional orientation while the less powerful party tends to have a relational one.

We use regression models to reveal the significant factors conducive to the prevalence of the embedded ties in the market. Selection of business partners based on relational criteria and relationship investment enhance embedded ties of suppliers. Brand reputation as a factor of choosing business partners and investments in the form of information exchange seemed to be important for retailers. Moreover, we measure how the reliability and conflict level depends on a degree of embeddedness of interfirm relationships. Partners' reliability is an important problem for both parties and this issue was time and again named a weak point of Russian business. But it is remarkable that unlike retailers, for suppliers there is no significant tie between reliability and a degree of social embeddedness.

The research findings imply that at the end of the 2000s, exchange relations between retail chains and their suppliers was regulated by "relational" norms with even higher levels of proliferation than before. The period is characterized not by disruption, but by crystallisation of the institutional framework of embedded exchange relations.

## Endnote

<sup>1</sup>Headed by Prof. Vadim Radaev and funded by the HSE Advanced Research Program.

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